

ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
2013 FIRST QUARTER REPORT

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ONTARIO POWER GENERATION INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. (OPG or Company) as at and for the three months ended March 31, 2013. For a complete description of OPG's corporate strategies, risk management, corporate governance, related party transactions and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and MD&A as at and for the year ended December 31, 2012.

As required by Ontario Regulation 395/11, as amended, a regulation under the *Financial Administration Act* (Ontario) (FAA), OPG adopted United States generally accepted accounting principles (US GAAP) for the presentation of its consolidated financial statements, effective January 1, 2012. The Ontario Securities Commission also approved OPG's adoption of US GAAP for financial years that begin on or after January 1, 2012, but before January 1, 2015. OPG's unaudited interim consolidated financial statements are prepared in accordance with US GAAP and are presented in Canadian dollars. This MD&A is dated May 15, 2013.

FORWARD-LOOKING STATEMENTS

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

All forward-looking statements involve inherent assumptions, risks and uncertainties, including those set out under the heading *Risk Management*, and therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, 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 (Province).

As at March 31, 2013, 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 (GS). OPG and ATCO Power Canada Ltd. co-own the Brighton Beach gas-fired combined cycle GS. The income of the co-owned facilities is reflected in other income. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. (Bruce Power). Income from these leased stations is included in revenue under the Regulated – Nuclear Generation segment. These co-owned facilities and leased stations are not included in the generation portfolio statistics set out in this report. A description of OPG's segments is provided in OPG's 2012 annual MD&A under the heading, *Business Segments*.

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

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

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

HIGHLIGHTS

Overview of Results

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

<i>(millions of dollars – except where noted)</i>	Three Months Ended March 31	
	2013	2012
Revenue	1,255	1,199
Fuel expense	183	192
Gross margin	1,072	1,007
<i>Expenses</i>		
Operations, maintenance and administration	700	635
Depreciation and amortization	242	189
Accretion on fixed asset removal and nuclear waste management liabilities	189	187
Earnings on nuclear fixed asset removal and nuclear waste management funds	(124)	(210)
Restructuring	2	1
Property and capital taxes	15	14
	1,024	816
Income before other income, interest and income taxes	48	191
Other income	(9)	(8)
Net interest expense	25	32
Income tax expense	4	13
Net income	28	154
<i>Electricity production (TWh)</i>	21.1	22.0
<i>Cash flow</i>		
Cash flow provided by operating activities	245	111

Net income decreased by \$126 million in the first quarter of 2013. The following summarizes the significant items which affected net income for the first quarter of 2013 compared to the same quarter in 2012:

Gross Margin

Gross margin increased by \$65 million as a result of:

- Higher generation revenue of \$47 million in the unregulated hydroelectric and thermal segments primarily due to higher electricity spot market prices.
- Higher revenue of \$44 million in 2013 resulting from the new rate riders for nuclear and regulated hydroelectric production established by the OEB effective January 1, 2013. The increase in revenue was largely offset by higher amortization expense associated with the recovery of the variance and deferral account balances.
- Higher revenue from contracts for the thermal stations of \$21 million primarily due to the advancement of depreciation expense resulting from the advanced shutdown of the Lambton and Nanticoke GS by December 31, 2013.
- The increase was partially offset by the impact of lower nuclear generation primarily due to a higher number of outage days resulting in lower revenue of \$46 million from the nuclear segment.

OM&A

OM&A increased by \$65 million as a result of:

- Higher OM&A expenses due to a decrease in OPEB expenses in 2012 of \$40 million resulting from the recognition of a regulatory asset for the Impact for USGAAP Deferral Account (US GAAP Deferral Account) established by the OEB in 2012.
- Higher nuclear OM&A expenses of \$26 million primarily due to increased outage activities.
- The increase was partially offset by lower thermal OM&A expenses of \$11 million primarily due to cost reduction measures, including headcount reductions, and reduced scope of work associated with changing operating profiles.

Depreciation and Amortization

Depreciation and amortization increased by \$53 million as a result of:

- Higher amortization expense of \$67 million related to regulatory variance and deferral accounts as a result of the OEB establishing new rate riders that recover December 31, 2012 balances in the accounts, effective January 1, 2013. This was largely offset by higher revenue from OPG's regulated facilities as a result of the new, higher rate riders.
- Higher depreciation expense of \$17 million for the Unregulated – Thermal segment due to the accelerated depreciation of the Lambton and Nanticoke GS resulting from the advanced shutdown of these stations by December 31, 2013. This was offset by an increase in gross margin as a result of higher payments under the Contingency Support Agreement.
- The increase was partially offset by lower depreciation expense as a result of the change in station lives at the Pickering GS and the Bruce GS, net of the impact of regulatory variance and deferral accounts.

Nuclear Funds Earnings

Earnings on the Used Fuel Segregated Fund (Used Fuel Fund) and a Decommissioning Segregated Fund (Decommissioning Fund) (together the Nuclear Funds) decreased by \$86 million as a result of:

- Lower Decommissioning Fund earnings as a result of the Decommissioning Fund being in an overfunded position. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

Segment Results

The following table summarizes OPG's income before interest and income taxes by segment for the three months ended March 31, 2013 and 2012.

<i>(millions of dollars)</i>	Three Months Ended	
	2013	2012
<i>Income (loss) before interest and income taxes</i>		
Regulated – Nuclear Generation	(13)	89
Regulated – Hydroelectric	90	96
Unregulated – Hydroelectric	35	4
Unregulated – Thermal	(10)	(32)
Total electricity generation business segments	102	157
Regulated – Nuclear Waste Management	(63)	24
Other	18	18
	57	199

OPG's income before interest and income taxes from the electricity generation business segments decreased by \$55 million for the first quarter of 2013. The decrease was primarily due to higher OM&A expenses and lower nuclear generation revenue. The decrease was partially offset by higher generation revenue from the unregulated hydroelectric segment, primarily due to higher electricity spot market prices.

The decrease in income before interest and income taxes of \$87 million for the Regulated – Nuclear Waste Management business segment was primarily a result of lower earnings from the Decommissioning Fund, as a result of being in an overfunded position.

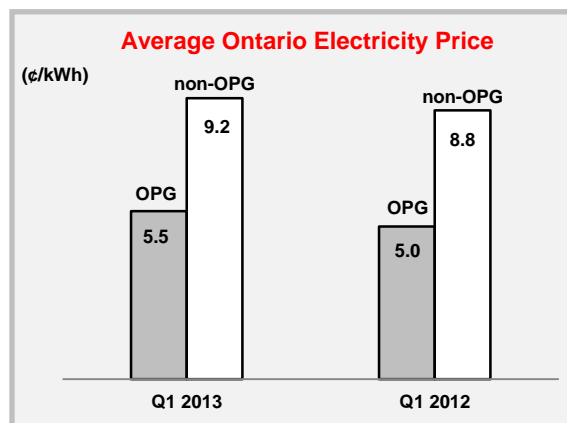
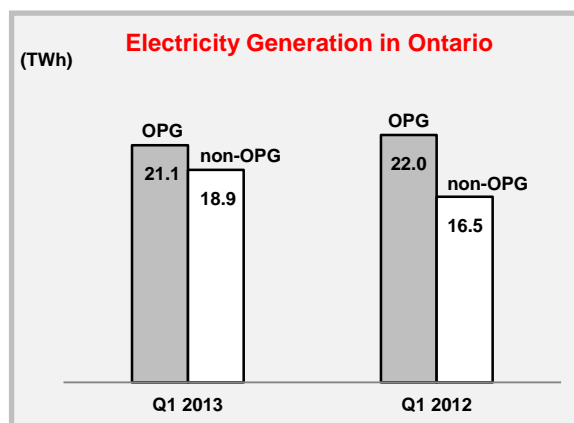
Electricity Generation

Electricity generation for the three months ended March 31, 2013 and 2012 was as follows:

(TWh)	Three Months Ended March 31	
	2013	2012
Regulated – Nuclear Generation	11.6	12.5
Regulated – Hydroelectric	4.7	4.9
Unregulated – Hydroelectric	3.6	3.6
Unregulated – Thermal	1.2	1.0
Total OPG electricity generation	21.1	22.0
Total electricity generation by all other generators in Ontario	18.9	16.5

The decrease in total OPG electricity generation of 0.9 TWh was primarily due to a decrease in electricity generation from the Regulated – Nuclear Generation and the Regulated – Hydroelectric segments, partially offset by higher electricity generation from the Unregulated – Thermal segment.

Electricity generation from the Regulated – Nuclear Generation segment decreased by 0.9 TWh during the first quarter of 2013 compared to the same quarter in 2012. The decrease was primarily a result of a higher number of planned outage days at the Darlington GS and an extension to the Unit 1 outage at the Pickering GS during the first quarter of 2013. The decrease was partially offset by excellent performance of the other Pickering GS units and strong performance at the Darlington GS as a result of a low number of unplanned outage days. The lower generation from the Regulated – Hydroelectric segment during the first quarter of 2013, compared to the same quarter in 2012, was primarily due to lower water levels on the Great Lakes. Higher generation from the Unregulated – Thermal segment during the first quarter of 2013, compared to the same quarter in 2012, was primarily due to lower nuclear and hydroelectric generation and the utilization of coal inventories prior to the shutdown of the coal-fired stations.



Average Sales Prices and Average Revenue

The average sales prices and average revenue were as follows:

(\$/kWh)	Three Months Ended March 31	
	2013	2012
Weighted average hourly Ontario electricity price (HOEP)	3.0	2.1
Regulated – Nuclear Generation	5.7	5.5
Regulated – Hydroelectric	3.9	3.5
Unregulated – Hydroelectric	3.1	2.2
Unregulated – Thermal	2.9	2.0
Average revenue for all electricity generators, excluding OPG ¹	9.2	8.8
Average revenue for OPG ²	5.5	5.0

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 Average revenue for OPG is comprised of regulated revenues, market based revenues, and other energy revenues primarily from cost recovery agreements for the Nanticoke, Lambton and Lennox GS, and revenue from Hydroelectric Energy Supply Agreements (ESA).

The increase in the average sales prices for OPG's regulated segments for the three months ended March 31, 2013 compared to the same period in 2012 was a result of the OEB's approval of new rate riders, effective January 1, 2013. These rate riders were established to collect amounts previously recorded in variance and deferral accounts and, therefore, do not materially affect income. For additional information regarding the recent OEB's approval, refer to the *Recent Developments* section.

Average sales prices for OPG's unregulated segments increased for the three months ended March 31, 2013, compared to the same period in 2012. This was primarily due to the impact of higher Ontario electricity spot market prices. The increase in the HOEP for the first quarter of 2013 compared to the same quarter in 2012, was primarily due to higher natural gas prices and Ontario primary demand, offset slightly by the impact of higher non-OPG nuclear generation.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended March 31, 2013 was \$245 million, compared to \$111 million for the three months ended March 31, 2012. The increase in operating cash flow was primarily due to an additional voluntary contribution to the pension fund in the first quarter of 2012 and the impact of higher generation revenues.

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 measured over a 12-month period. FFO Interest Coverage for the twelve months ended March 31, 2013 was 2.7 times and 2.3 times for December 31, 2012. The FFO Interest Coverage increased primarily due to higher cash flows provided by operating activities.

Return on Equity

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

ROE for the twelve months ended March 31, 2013 was 2.7 percent and 4.2 percent for December 31, 2012. ROE decreased for the period primarily due to lower net income and higher average shareholder's equity, excluding

accumulated other comprehensive income (AOCI). OPG's ROE reflects low levels of income primarily due to low electricity spot market prices and a relatively high equity component in OPG's capital structure.

FFO Interest Coverage and ROE are not measurements in accordance with US GAAP and should not be considered as an alternative measure to net income, cash flows from operating activities, or any other measure of performance under US GAAP. OPG believes that 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 and ROE can be found under the heading, *Supplementary Non-GAAP Financial Measures*.

Recent Developments

OPG's OEB Application

In 2012, OPG filed an application with the OEB requesting approval to recover balances in the authorized regulatory variance and deferral accounts as at December 31, 2012, and for the adoption of US GAAP for regulatory purposes. As at December 31, 2012, the balances in all accounts authorized for OPG totalled \$1,275 million.

In March 2013, OPG reached a settlement agreement with intervenors on all aspects of its application (Settlement Agreement). In a decision by the OEB in March 2013, the Settlement Agreement was approved. Subsequently, the OEB issued an order establishing new rate riders effective January 1, 2013. This resulted in approval of \$1,234 million recorded in the authorized accounts as at December 31, 2012, deferral for future review of \$34 million recorded in certain accounts as at December 31, 2012, and a write-off of \$7 million of interest recorded in certain accounts as at December 31, 2012.

Pursuant to the OEB's order, the disposition of the approved balances in most accounts has been authorized to take place over periods ranging from two to 12 years beginning on January 1, 2013. Some of these periods are longer than originally requested by OPG in its application, resulting in an extended recovery of the approved balances. In particular, the authorized recovery period for the balance in the Pension and OPEB Cost Variance Account is 12 years, compared to four years proposed in OPG's application.

As part of the Settlement Agreement, OPG is also required to credit ratepayers with an additional \$94 million over the 2013 to 2014 period. The credit is related to a reduction in depreciation expense for the Pickering GS following the changes to the useful lives of the stations effective December 31, 2012. OPG is required to refund \$47 million per year until new nuclear regulated prices are established that reflect the revised service lives for the Pickering GS units.

As a result of the OEB's approval of the Settlement Agreement, OPG has been authorized to recover \$633 million over the period from March 1, 2013 to December 31, 2014. In its decision and order, the OEB established the following rate riders for production from the regulated facilities during the period:

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

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

As the riders are established to collect amounts previously recorded in variance and deferral accounts, the increase in revenue resulting from the implementation of the new riders is expected to be largely offset by an increase in amortization expense. Therefore, taking into consideration the impact of depreciation and amortization expenses, OPG's income is not expected to be materially affected.

The OEB's decision and order regarding the Settlement Agreement authorized the continuation of previously existing variance and deferral accounts, including the Pension and OPEB Cost Variance Account without a prescribed end date. The OEB also approved OPG's adoption of US GAAP for regulatory purposes.

OPG plans to file an application with the OEB for new regulated prices for production from OPG's regulated nuclear and hydroelectric facilities in 2013. These new prices would be effective in 2014. A discussion of the risks regarding future regulated prices is included in this MD&A under the heading, *Financial Sustainability*.

The Society of Energy Professionals' Collective Agreement

The Company's labour agreement with the Society of Energy Professionals (The Society) was renewed in the first quarter of 2013, following arbitration. The agreement is effective January 1, 2013, for a 3-year term.

CORE BUSINESS AND STRATEGY

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

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

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

Performance Excellence

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

Nuclear Generating Assets

In the first quarter of 2013, OPG continued with improvements to the planning, execution, monitoring and reporting of outage work to reduce costs and increase generation. The planned outage programs at Pickering Units 5 to 8 over the next five years reflect OPG's objective of extending the operating lives of these units for approximately an additional four to six years. Pickering GS performed well during the first quarter of 2013 with the exception of Unit 1 which had an extended outage during the quarter. The unit was returned to service in April 2013. Darlington GS also performed well during the quarter.

Hydroelectric Generating Assets

With the consideration of current and future market conditions, OPG continues to evaluate and implement plans to increase capacity and maintain the hydroelectric generating assets. In March 2013, the Niagara Tunnel was completed and declared in-service which will increase annual generation from the Sir Adam Beck GS by providing an additional water diversion capacity of approximately 500 cubic metres per second. In addition, OPG completed a runner upgrade and generator rewind at Unit 1 of the Des Joachims GS during the first quarter of 2013.

Thermal Generating Assets

In March 2013, the Ministry of Energy issued a declaration mandating that OPG cease the use of coal at the Nanticoke and Lambton GS by the end of 2013. The Contingency Support Agreement with the Ontario Electricity Financial Corporation (OEFC) has also been amended. The amendment allows for OPG to continue to recover

actual costs that cannot reasonably be avoided or mitigated during the period from the advanced shutdown date up to the end of 2014, consistent with the duration of the original contract. The amended agreement terms are expected to be triggered by the OEFC in 2013.

During the first quarter of 2013, OPG and the Independent Electricity System Operator (IESO) executed the Reliability Must Run contract for one unit at the Thunder Bay GS, for January 1, 2013 to December 31, 2013. The contract is subject to the OEB's approval. Since the capacity from a second unit at the Thunder Bay GS is not required by the IESO, Unit 2 was removed from the IESO market on March 14, 2013. OPG has notified the Power Workers' Union (PWU) and The Society in accordance with their respective collective bargaining agreements regarding the shutdown of this unit.

Within the terms of the respective collective agreements, OPG continues to estimate the restructuring costs related to the remaining units at the Lambton and Nanticoke GS and for the second unit at the Thunder Bay GS. This includes costs related to severance and relocation of employees to other OPG sites. OPG expects to accrue the severance costs in late 2013. Relocation costs will be recorded as incurred, primarily in 2014. OPG intends to maintain the assets such that they are preserved for potential future conversion to other fuels, if required.

Environmental Performance

During the first quarter of 2013, there were no significant changes to environmental legislation and environmental risks affecting the Company. For the three months ended March 31, 2013, CO₂ emissions from OPG's coal-fired stations were 1.34 million tonnes, compared to 1.14 million tonnes for the same period in 2012. Acid gas (SO₂ and NO_x) emissions were 4.9 gigagrams for the three months ended March 31, 2013 and 4.5 gigagrams for the three months ended March 31, 2012. CO₂ and acid gas emissions increased during the first three months of 2013 compared to the same period in 2012 as a result of increased generation from OPG's coal-fired generating stations.

Disclosures relating to environmental policies and procedures, and environmental risks are provided in the 2012 annual MD&A.

Project Excellence

OPG is pursuing a number of projects, including a number of significant generation development projects. The status updates for OPG's major projects as of March 31, 2013 are outlined below.

Project <i>(millions of dollars)</i>	Capital expenditures		Approved budget	Planned in-service date	Status
	Year-to-date	Life-to-date			
Darlington Refurbishment	57	419			This project is part of Ontario's Long-Term Energy Plan. A detailed cost and schedule estimate for the refurbishment of the four units is expected to be completed in 2015. See update below.
Niagara Tunnel	72	1,447	1,600	December 2013	Completed below the approved budget and ahead of the approved project completion date. See update below.
Lower Mattagami	182	1,535	2,600	June 2015	Construction continues. Project is on budget and on schedule. See update below.
Deep Geologic Repository for Low and Intermediate Level Waste ¹	4 ¹	150 ¹			Design activities suspended pending a licence from the Joint Review Panel. OPG continues to be involved in the federal review process.
Atikokan Biomass Conversion	21	80	170	August 2014	Construction continues. Project is on budget and on schedule.

¹ Expenditures are funded by nuclear fixed asset removal and nuclear waste management liabilities.

Darlington Refurbishment

The CNSC issued a decision on the Environmental Assessment (EA) for the refurbishment of the Darlington GS on March 14, 2013, confirming that, taking into account the identified mitigation measures, Darlington refurbishment and continued operations are not likely to cause significant environmental effect. The EA was subsequently challenged in April 2013 by way of judicial review in the Federal Court of Canada, on the grounds that the EA failed to comply with requirements of the Canadian Environmental Assessment Act, and that the hearing deprived the applicants certain procedural rights.

The Darlington Refurbishment project is currently in the definition phase. In March 2013, the Turbine Generator contract for equipment supply and technical services was awarded to Alstom Power and Transport Canada Incorporated. The contract is valued at approximately \$350 million and contains suspension and termination provisions.

Niagara Tunnel

In March 2013, the 10.2 kilometre tunnel was completed and declared in-service, approximately nine months ahead of the approved project completion date of December 2013. This additional water diversion capacity of approximately 500 cubic metres per second will increase annual generation from the Sir Adam Beck GS by an average of approximately 1.5 TWh, depending on water flow. Total costs of the project are being finalized and are expected to be approximately \$1.5 billion, compared to the approved budget of \$1.6 billion.

Lower Mattagami

In December 2012, there was a breach in one section of the recently installed cofferdam at the Kipling site. All other cofferdams on the project have been inspected and it has been determined that they are safe. OPG has finalized and executed a remediation plan regarding the cofferdam breach at the Kipling site and construction activity resumed at the Kipling site in May 2013. This remediation plan is not expected to impact the project schedule and budget. The project is still expected to be completed on plan by June 2015 within the approved budget of \$2.6 billion.

Financial Sustainability

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

- Enhancing profitability by increasing revenue.
- Improving efficiency and reducing costs.
- Ensuring a strong financial position that enhances OPG's ability to finance its operations and projects.

Increasing Revenue

OPG's revenue strategy focuses on increasing revenues, while taking into account the impact on Ontario electricity ratepayers. OPG has multiple sources of revenue, including: regulated prices for the nuclear and most of OPG's baseload hydroelectric generating facilities operated by OPG (Prescribed Facilities); electricity spot market prices for certain unregulated facilities; energy supply and cost recovery agreements for its remaining unregulated facilities; and non-generation revenues.

Electricity produced from the Prescribed Facilities receives regulated prices. Under the current regulatory framework, OPG must show that its regulated costs are just and reasonable and should be fully recovered while earning an appropriate return.

The current regulated prices do not fully reflect the recovery of the costs of the regulated operations and do not allow these operations to earn an appropriate rate of return, thereby negatively impacting OPG's financial performance. OPG has made substantial investments in new generation capacity in the last decade, and significantly transformed its operations in the last few years to achieve higher efficiency. In order to generate an acceptable return on its assets and future investments, maintain its credit rating, and continue to be a positive influence on the Province's financial position, it is anticipated that an increase in regulated prices will be required. OPG's average revenue per unit of generation is expected to remain below the average revenue received by its competitors.

In March 2013, the OEB approved the Settlement Agreement as discussed in the *Recent Developments* section. The settlement allows OPG to recover \$633 million over the 2013/2014 period. The remaining balance in the variance and deferral accounts will be recovered over a number of years. The additional revenue from the Settlement Agreement reflects the collection of balances relating to the past. Notwithstanding the additional revenue from the Settlement Agreement, the average revenue that OPG received for the first quarter of 2013 was 5.5 ¢/kWh, compared to 9.2 ¢/kWh received by all other generators in Ontario.

In 2013, OPG plans to file an application with the OEB for new regulated prices for production from its Prescribed Facilities, effective in 2014. OPG is currently exploring long-term revenue options to recover its costs and earn an appropriate return, while moderating customer rate increases.

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

A portion of OPG's electricity production is unregulated and sold at the Ontario electricity spot market price. The average spot market price has declined significantly since 2008 due to factors such as low natural gas prices,

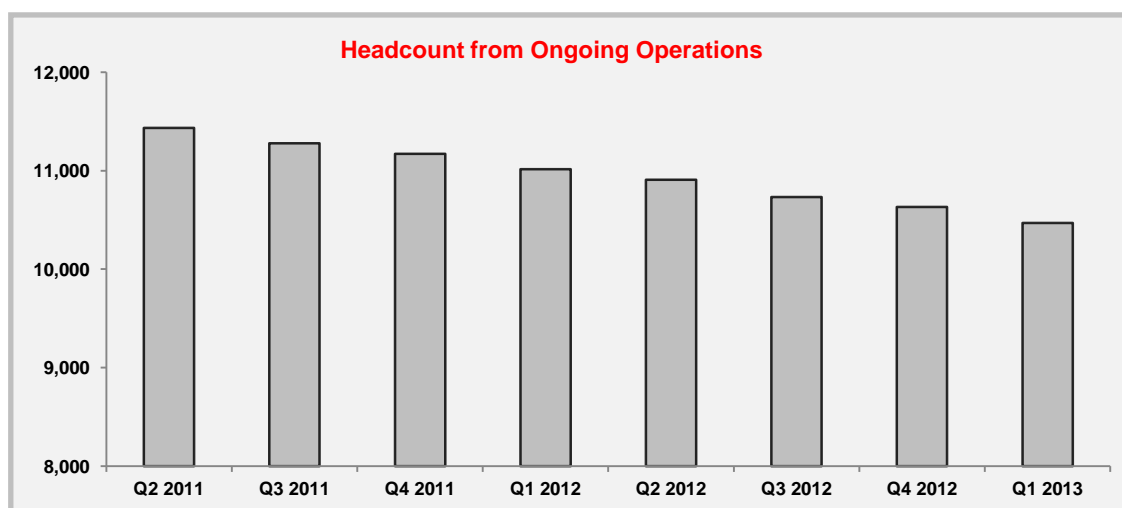
increased electricity supply, and lower primary demand. While the average spot market price increased during the first quarter of 2013, compared to the same quarter in 2012, based on current spot market prices, OPG's unregulated revenues are insufficient to fully recover costs and earn an appropriate return. OPG is exploring options aimed at recovering costs and earning an appropriate return from its unregulated assets.

OPG has negotiated energy supply and cost recovery agreements for certain of its unregulated hydroelectric and thermal assets. During the first quarter of 2013, OPG reached an agreement with the IESO on a Reliability Must Run contract related to one unit at the Thunder Bay GS. The agreement is subject to the OEB's approval.

Improving Efficiency and Reducing Costs

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

Business transformation initiatives continued in 2013 and resulted in further headcount reductions. During the first quarter of 2013, headcount from ongoing operations decreased by over 150, primarily through attrition.



Strengthening Financial Position

Successfully implementing initiatives to increase revenue, achieve efficiencies, and reduce costs will serve to strengthen OPG's financial position. To operate on a financially sustainable basis and maintain the value of its assets for its Shareholder, OPG's financial objectives are to: maintain an investment grade credit rating; ensure that capital is allocated in an economic and prudent manner; ensure sufficient liquidity; ensure that all major generation development projects are economic, provide for recovery of costs, and achieve an appropriate return; and continuously evaluate financial and operating performance.

OPG manages its capital structure by taking into consideration the financial metrics consistent with its current credit rating, regulated prices for the regulated operations, and unregulated revenues. OPG continuously evaluates its financial performance using indicators including: ROE and FFO Interest Coverage. For further details, refer to the ROE and FFO Interest Coverage disclosure under the heading, *Supplementary Non-GAAP Financial Measures*. A comprehensive description of OPG's other financial objectives is provided in OPG's 2012 annual MD&A under the heading, *Financial Sustainability*.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

Regulated – Nuclear Generation Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Regulated generation sales	664	692
Variance accounts	(74)	46
Other	149	35
Total revenue	739	773
Fuel expense	74	75
Variance and deferral accounts	(12)	(4)
Total fuel expense	62	71
Gross margin	677	702
Operations, maintenance and administration	527	462
Depreciation and amortization	156	144
Property and capital taxes	7	7
(Loss) income before interest and income taxes	(13)	89

The loss before interest and income taxes of \$13 million during the first quarter of 2013, compared to income of \$89 million in the same period in 2012, was due to higher OM&A expenses, a lower gross margin, and higher depreciation and amortization expenses.

The \$65 million increase in OM&A expenses was primarily due to lower OPEB expenses during the first quarter of 2012 as a result of the recognition of a regulatory asset for the US GAAP Deferral Account. In addition, higher OM&A expenditures resulted from an extension to an outage at Pickering GS during the first quarter of 2013. Lower discount rates also resulted in higher pension and OPEB costs in 2013. However, the increase was largely offset by amounts recorded in the Pension and OPEB Cost Variance Account.

Gross margin decreased by \$25 million primarily due to lower nuclear generation of 0.9 TWh. This decrease was partially offset by an increase in revenue of \$22 million primarily resulting from the new rate riders for nuclear generation, which are effective January 1, 2013. The revenue impact of the new rate riders was largely offset by a corresponding increase in amortization expense related to regulatory balances.

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

The unit capability factors for the Darlington GS and Pickering GS and the Production Unit Energy Cost (PUEC) for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31	
	2013	2012
Unit Capability Factor (%)		
Darlington GS	84.1	95.6
Pickering GS	79.0	77.0
Nuclear PUEC (\$/MWh)	50.01	41.09

The lower capability factor at the Darlington GS for the three months ended March 31, 2013, compared to the same period in 2012, was primarily due to an increase in planned outage days to execute scheduled maintenance activities

on the facilities. The increase in planned outage days reflects the first of two planned outages in 2013 which had an earlier start date compared to the 2012 outage at the Darlington GS. The Darlington GS continued to perform well during the quarter. The higher capability factor at the Pickering GS for the three months ended March 31, 2013, compared to the same period in 2012, was primarily as a result of the excellent performance of Pickering Units 4 to 8. This increase was partially offset by the impact of an extension to a planned outage at Pickering GS Unit 1 during the first quarter of 2013.

Nuclear PUEC increased during the first quarter of 2013, compared to the same period in 2012, primarily due to higher OM&A expenses and lower generation.

Regulated – Nuclear Waste Management Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Revenue	25	24
Operations, maintenance and administration	27	26
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	185	184
Earnings on nuclear fixed asset removal and nuclear waste management funds	(124)	(210)
(Loss) income before interest and income taxes	(63)	24

The loss before interest and income taxes for the first quarter of 2013 was a result of lower earnings on the Nuclear Funds. This decrease was primarily a result of lower earnings from the Decommissioning Fund as a result of the fund being in an overfunded position. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

Regulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Regulated generation sales ¹	183	169
Variance accounts	11	3
Other	7	6
Total revenue	201	178
Fuel expense	50	54
Variance accounts	2	(1)
Total fuel expense	52	53
Gross margin	149	125
Operations, maintenance and administration	26	21
Depreciation and amortization	32	8
Property and capital taxes	1	-
Income before interest and income taxes	90	96

¹ During the three months ended March 31, 2013 and 2012, the Regulated – Hydroelectric segment generation sales included revenue of \$2 million related to the hydroelectric incentive mechanism.

The decrease in income before interest and income taxes during the first quarter of 2013, compared to the same quarter in 2012, was primarily due to higher OM&A expenses. The increase in OM&A expenses was mainly a result of increased maintenance activities during the first quarter of 2013, and a decrease in OPEB expenses during the first quarter of 2012 due to the recognition of a regulatory asset for the US GAAP Deferral Account.

The increase in gross margin was primarily due to an increase in revenue of \$22 million. The increase was primarily due to the new rate riders, which are effective January 1, 2013. The revenue impact of the new rate riders was largely offset by a corresponding increase in amortization expense related to regulatory balances. In addition, the depreciation expense associated with the Niagara Tunnel being declared in-service in March 2013 was offset by a regulatory asset related to the Capacity Refurbishment Variance Account.

The Regulated – Hydroelectric availability, Equivalent Forced Outage Rate (EFOR) and OM&A expense per MWh for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31	
	2013	2012
Availability (%)	89.9	92.2
EFOR (%)	0.1	2.0
Regulated – Hydroelectric OM&A expense per MWh (\$/MWh)	5.53	4.29

The decrease in availability during the first quarter of 2013 compared to the same quarter in 2012 was primarily due to the continuing planned outage at the Sir Adam Beck 1 GS and the advancement of the planned station outage at the Sir Adam Beck Pump GS. The high availability and low EFOR reflects the continuing good performance of these regulated generating stations.

The increase in OM&A expense per MWh in the first quarter of 2013 compared to the same quarter in 2012 was due to higher OM&A expenses and lower generation.

Unregulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Spot market sales	111	80
Other	21	18
Total revenue	132	98
Fuel expense	18	20
Gross margin	114	78
Operations, maintenance and administration	59	56
Depreciation and amortization	18	18
Income before other loss, interest and income taxes	37	4
Other loss	2	-
Income before interest and income taxes	35	4

Income before interest and income taxes increased by \$31 million for the three months ended March 31, 2013, compared to the same period in 2012. The increase was primarily due to a higher gross margin resulting from the higher weighted average HOEP during the first quarter of 2013, compared to the same quarter in 2012. The weighted average HOEP was 3.0 ¢/kWh in the first quarter of 2013, compared to 2.1 ¢/kWh for the first quarter of 2012.

The Unregulated – Hydroelectric availability, EFOR and OM&A expense per MWh for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31	
	2013	2012
Availability (%)	94.5	92.0
EFOR (%)	0.8	2.8
Unregulated – Hydroelectric OM&A expense per MWh (\$/MWh)	16.39	15.56

The increase in availability for the first quarter of 2013 compared to the same quarter in 2012 was primarily a result of a decrease in unplanned outage days during the first quarter of 2013. The decrease in EFOR during the first quarter of 2013 compared to the same quarter in 2012 was primarily due to a fewer number of unplanned outage days. The high availability reflected the continuing strong performance of the unregulated hydroelectric stations.

The increase in OM&A expense per MWh for the three months ended March 31, 2013 compared to the same period in 2012 was due to the impact of higher OM&A expenses.

Unregulated – Thermal Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Spot market sales	35	19
Contingency support agreement	97	83
Other	34	30
Total revenue	166	132
Fuel expense	51	48
Gross margin	115	84
Operations, maintenance and administration	85	94
Depreciation and amortization	31	14
Accretion on fixed asset removal liabilities	4	3
Property and capital taxes	4	4
Restructuring	2	1
Loss before other income, interest and income taxes	(11)	(32)
Other income	(1)	-
Loss before interest and income taxes	(10)	(32)

The improvement in income before interest and income taxes of \$22 million for the three months ended March 31, 2013, compared to the same period in 2012, was primarily due to higher contract revenue from the Lambton, Nanticoke and Lennox GS, and higher electricity sales prices.

Contract revenue was higher during the first quarter of 2013 compared to the same quarter in 2012 primarily as a result of the recovery of higher depreciation expense, partially offset by lower OM&A expenses. The reduction in OM&A expenses of \$9 million for the three months ended March 31, 2013, compared to the same period in 2012, was primarily due to cost reduction measures, including headcount reductions and reduced scope of work associated with changing operating profiles.

The increase in depreciation and amortization expenses of \$17 million during the first quarter of 2013, compared to the first quarter of 2012, was primarily due to the recognition of accelerated depreciation during 2013 as a result of the shutdown of all remaining units at the Lambton and Nanticoke GS by the end of 2013.

The Unregulated – Thermal Start Guarantee rate, EFOR, and OM&A expense per MW for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31	
	2013	2012
Start Guarantee rate (%)	97.9	94.1
EFOR (%)	17.9	7.0
Unregulated – Thermal OM&A expense per MW (\$000/MW)	62.4	69.0

The increase in EFOR was primarily due to a higher number of unplanned outage days at the Nanticoke GS. The high Start Guarantee rate for the first quarter of 2013 and 2012 reflected the ability of the thermal generating stations to respond to market requirements when needed.

The decrease in OM&A expense per MW during the three months ended March 31, 2013 compared to the same period in 2012 was primarily due to lower OM&A expenses.

Other

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Revenue	16	18
Depreciation and amortization	5	5
Property and capital taxes	3	3
Income before other income, interest and income taxes	8	10
Other income	(10)	(8)
Income before interest and income taxes	18	18

In the first quarter of 2013, revenue in the Other category decreased as a result of lower net trading revenue. This decrease was offset by higher first quarter earnings in 2013 from OPG's investments in joint ventures.

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 March 31, 2013, if disclosed on a gross basis, revenue and power purchases would have increased by \$9 million (three months ended March 31, 2011 – \$13 million).

Income Taxes

Income tax expense for the three months ended March 31, 2013 was \$4 million compared to \$13 million for the same period in 2012. The decrease in income tax expense was primarily due to increases in regulatory variance and deferral account balances recorded in the first quarter of 2013 related to income taxes.

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 fund and the Nuclear Funds; and to service and repay long-term debt.

Changes in cash and cash equivalents for the three months ended March 31, 2013 and 2012 are as follows:

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Cash and cash equivalents, beginning of period	413	630
Cash flow provided by operating activities	245	111
Cash flow used in investing activities	(393)	(312)
Cash flow provided by financing activities	295	87
Net increase (decrease)	147	(114)
Cash and cash equivalents, end of period	560	516

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

Investing Activities

Cash flow used in investing activities during the three months ended March 31, 2013 increased by \$81 million compared to the same quarter in 2012. This increase was primarily due to higher expenditures for the Lower Mattagami River project.

OPG's forecast capital expenditures for 2013 are approximately \$1.7 billion, which includes amounts for hydroelectric development and nuclear refurbishment.

Financing Activities

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches. During the second quarter of 2013, OPG expects to renew and extend both tranches to May 2018. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at March 31, 2013, no commercial paper was outstanding under this program, and there were no outstanding borrowings under the bank credit facility as at March 31, 2013.

As at March 31, 2013, OPG maintained \$25 million of short-term, uncommitted overdraft facilities, and \$395 million of short-term uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans, and for other general corporate purposes. As at March 31, 2013, a total of \$350 million of Letters of Credit had been issued, including \$329 million for the supplementary pension plans, \$20 million for general corporate purposes and \$1 million related to the operation of the PEC.

The Company has an agreement, which expires November 30, 2014, to sell an undivided co-ownership interest of up to \$250 million in its current and future accounts receivable to an independent trust. As at March 31, 2013, of the \$329 million of Letters of Credit issued for the supplementary pension plans, \$55 million were issued under this agreement.

OPG also maintains a Niagara Tunnel project credit facility for an amount up to \$1.6 billion. As at March 31, 2013, advances under this facility were \$1,045 million, including \$20 million of new borrowing during the first quarter of 2013.

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 March 31, 2013, no 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 March 31, 2013, there were no outstanding borrowings under this credit facility. In February 2013, the LME issued senior notes totalling \$275 million with a maturity date of 2046. The effective interest rate for these notes was 4.3 percent and the coupon interest rate was 4.2 percent.

As at March 31, 2013, OPG's long-term debt outstanding was \$5,409 million.

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

BALANCE SHEET HIGHLIGHTS

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

<i>(millions of dollars)</i>	As At	
	March 31 2013	December 31 2012
Property, plant and equipment - net	16,085	15,860
The increase was primarily due to fixed asset additions for the Lower Mattagami River project, the Niagara Tunnel, and the refurbishment of the Darlington GS. This was partially offset by an increase in depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds <i>(current and non-current portions)</i>	12,836	12,717
The increase was primarily due to earnings on the Nuclear Funds, contributions to the Used Fuel Fund, partially offset by reimbursements of expenditures on nuclear fixed asset removal and nuclear waste management.		
Fixed asset removal and nuclear waste management liabilities	15,707	15,522
The increase was primarily a result of accretion expense due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities.		
Long-term accounts payable and accrued charges	626	707
The decrease was primarily due to a decrease in the fair value of the derivative liability embedded in the Bruce Lease.		

Off-Balance Sheet Arrangements

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

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies are outlined in Note 3 to the audited 2012 annual consolidated financial statements as at and for the year ended December 31, 2012.

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.

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

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

International Financial Reporting Standards (IFRS)

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

RISK MANAGEMENT

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

Operational Risks

Darlington Refurbishment

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

Financial Risks

Commodity Markets

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

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

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

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

	2013 ⁴	2014	2015
Estimated generation output hedged ¹	83%	82%	81%
Estimated fuel requirements hedged ²	76%	69%	57%
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 Ontario Power Authority, or other electricity contracts which are used as hedges.

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

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 affected by movements in the United States (US) dollar relative to the Canadian dollar, and by prevailing interest rates on its borrowings and investment programs.

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations are primarily denominated in US dollars. The market price of electricity in Ontario is influenced by the exchange rate due to the interaction between the Ontario and neighbouring US interconnected electricity markets. The Ontario electricity spot market is also influenced by US dollar denominated commodity prices such as for natural gas and coal which are used in electricity generation. To manage this risk, OPG employs various financial instruments such as forwards and other derivative contracts, in accordance with approved risk management policies. As at March 31, 2013, OPG had total foreign exchange contracts outstanding with a notional value of US \$84 million.

The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to refinance existing debt and/or undertake new financing. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated new financing. As at March 31, 2013, OPG had total interest rate swap contracts outstanding with a notional principal of \$120 million.

Trading

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

OPG's trading operations are closely monitored and total exposures are measured and reported to senior management on a daily basis. One of the metrics used to measure the financial risk of this trading activity is Value at Risk (VaR). VaR 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. VaR is calculated on a daily basis based on a 95% confidence interval and one day time horizon. OPG manages the financial risk to its trading portfolio by monitoring VaR daily, against an approved VaR limit. For the first quarter of 2013, the utilization of VaR averaged \$0.2 million, compared to an average of \$0.1 million for the first quarter of 2012.

Credit

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

OPG manages its exposure to various suppliers or counterparties by evaluating their financial condition and ensuring that appropriate collateral, or other forms of security, are held by OPG. OPG's credit exposure relating to energy markets transactions as at March 31, 2013 was \$366 million, including \$339 million to the IESO. Over 95 percent of the remaining \$27 million exposure is related to investment grade counterparties.

Enterprise-Wide Risks

Information Technology

OPG's ability to operate effectively is in part dependent on effectively managing its Information Technology (IT) assets. IT system failures may have an adverse impact on OPG.

Failure to safeguard IT assets could result in future system failures, or an inability to align information technology systems to support the business. In addition, OPG could be exposed to operational risks, reputational damage, and/or financial losses in the event of information technology security breaches. To mitigate these risks, OPG closely monitors its information technology systems and services and complies with North American Electricity Reliability Corporation standards, where applicable. However, given the constantly evolving nature of cyber threats, there continues to be potential for information technology security breaches.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

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

QUARTERLY FINANCIAL HIGHLIGHTS

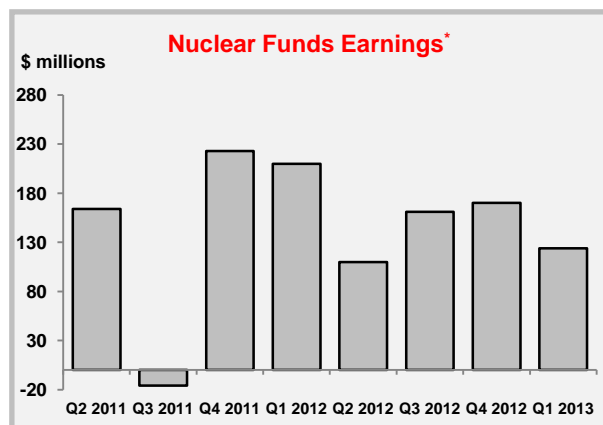
The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This financial information has been prepared in accordance with US GAAP.

<i>(millions of dollars – except where noted) (unaudited)</i>	March 31 2013	December 31 2012	September 30 2012	June 30 2012
Revenue	1,255	1,195	1,213	1,125
Net income	28	31	139	43
Net income per share (<i>dollars</i>)	\$0.11	\$0.12	\$0.54	\$0.17

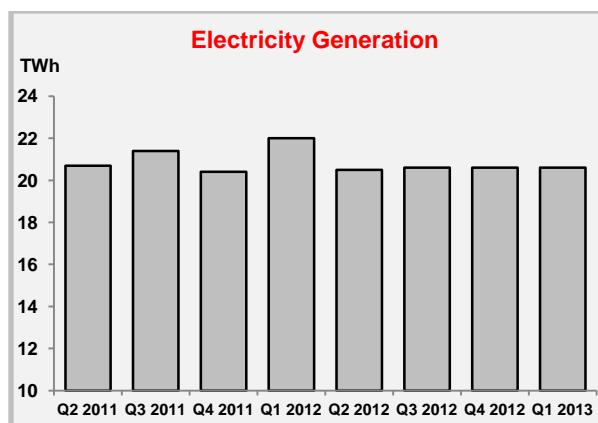
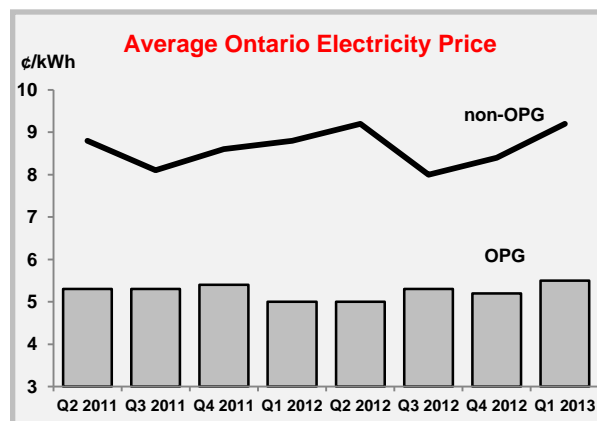
<i>(millions of dollars – except where noted) (unaudited)</i>	March 31 2012	December 31 2011	September 30 2011	June 30 2011
Revenue	1,199	1,228	1,250	1,202
Net income (loss)	154	230	(154)	109
Net income (loss) per share (<i>dollars</i>)	\$0.60	\$0.90	\$(0.61)	\$0.43

Trends

OPG's quarterly results are affected by changes in demand primarily resulting from variations in seasonal weather conditions. In addition to average revenue and generation volume, OPG's revenues are affected by earnings from the Nuclear Funds. 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.



*net of regulatory variance account



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

SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income in accordance with US GAAP, certain non-GAAP financial measures are also presented in OPG's MD&A and unaudited interim consolidated financial statements. These non-GAAP measures do not have any standardized meaning prescribed by US GAAP and, therefore, may not be comparable to similar measures presented by other issuers. OPG utilizes these measures to make operating decisions and assess performance. Readers of the MD&A, interim consolidated financial statements and the notes thereto utilize these measures in assessing the Company's financial performance from ongoing operations. The Company believes that these indicators are important since they provide additional information about OPG's performance, facilitate comparison of results over different periods, and present a measure consistent with the corporate strategy to operate on a financially sustainable basis. These non-GAAP financial measures have not been presented as an alternative to

net income in accordance with US GAAP, but as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

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

(2) **FFO Interest Coverage** is defined as FFO before interest divided by Adjusted Interest Expense. FFO before interest is defined as cash flow provided by operating activities adjusted for interest paid, interest capitalized to fixed and intangible assets, and changes to non-cash working capital balances for the period. Adjusted Interest Expense includes net interest expense plus interest income, interest capitalized to fixed and intangible assets, interest 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:

<i>(millions of dollars – except where noted)</i>	For the twelve months ended	
	March 31 2013	December 31 2012
FFO before interest		
Cash flow provided by operating activities	1,010	876
Add: Interest paid	239	246
Less: Interest capitalized to fixed and intangible assets	(139)	(126)
Add: Changes to non-cash working capital balances	(155)	(172)
FFO before interest	955	824
Adjusted Interest Expense		
Net interest expense	110	117
Add: Interest income	6	7
Add: Interest capitalized to fixed and intangible assets	139	126
Add: Interest related to regulatory assets and liabilities	3	12
Add: Interest on pension and OPEB projected benefit obligation less expected return on plan assets	99	103
Adjusted Interest Expense	357	365
FFO Interest Coverage (times)	2.7	2.3

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

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

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

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