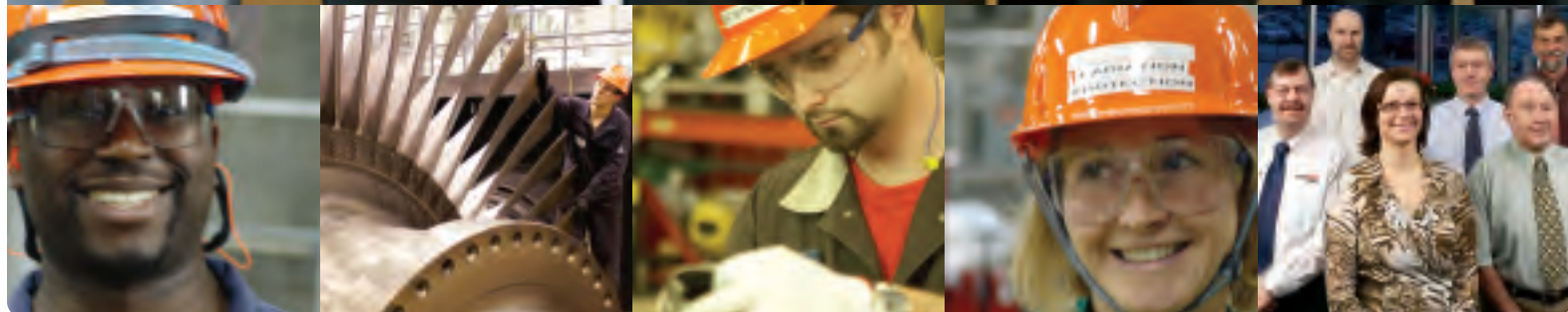


Generating 70 per cent of Ontario's Electricity

It's All About Performance

REPORT ON 2006 PERFORMANCE



FEBRUARY 2007

ONTARIOPOWER
GENERATION

Nuclear and Hydro production up in 2006

Fossil reliability improves for second consecutive year.

Increased hydro and nuclear production meets 53 per cent of Ontario's electricity demand

During 2006, OPG increased production from its nuclear and hydroelectric stations. OPG's 10 nuclear units generated 46.9 TWh* – an increase of four per cent over their 2005 production levels. This increase was primarily because of the generation from the Pickering Unit 1 reactor, which completed its first full year of operation since returning to service in the fall of 2005.

OPG's 64 hydroelectric stations also produced more electricity than in 2005. Total hydro production in 2006 was 33.3 TWh compared to 32.6 TWh the year before. This increase resulted from higher water levels in Eastern Ontario and effective outage management.

Unlike its nuclear stations and large hydroelectric plants, OPG's fossil facilities are not operated as baseload generators. They are mainly used as "swing resources" whose flexibility enables them to quickly produce power during periods of higher demand. While OPG's fossil-fuelled stations produced less electricity than in the previous year, this decrease was mainly due to lower electricity demand and higher production from OPG's nuclear and hydro assets.

Strong fossil and hydroelectric reliability

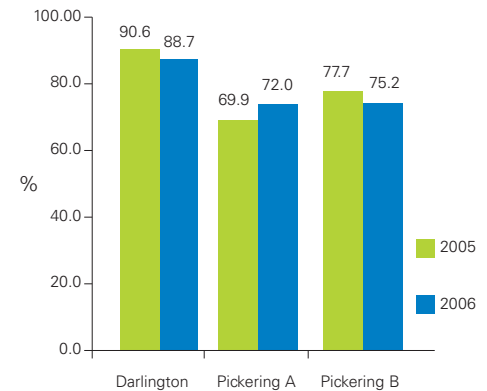
Reliability of our plants was strong in 2006 – as evidenced by their significantly lower forced outage rate of 14.1 per cent compared to 15.9 per cent in 2005 and 18.7 per cent in 2004. Effective maintenance improved equipment reliability at the fossil-fuelled stations, ensuring that they could respond quickly to changes in demand.

Reliability was also strong at OPG's hydroelectric stations. These stations were available to produce electricity 93 per cent of the time – three per cent better than the industry's five-year average. This is an impressive achievement given that the average age of OPG's hydro fleet is 72 years – with some stations more than 100 years old.

Nuclear stations faced some challenges

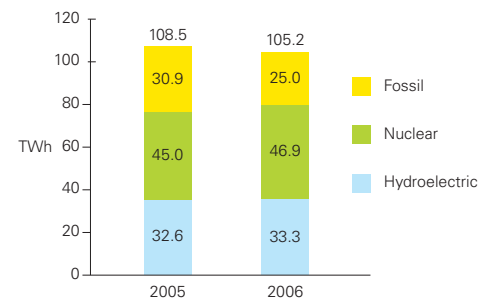
Despite producing more electricity in 2006, OPG's nuclear stations did not meet their production target of 49.3 TWh, primarily because of longer than expected planned outages.

2006 Nuclear Unit Capability Factor



Nuclear unit capability declined at Darlington and Pickering B in 2006 while improving at Pickering A. Extensions to planned outages contributed to the lower unit capability factors at the two stations.

OPG Electricity Production



OPG's Pickering B nuclear station. OPG's nuclear units account for about 30 per cent of the company's generating capacity, but produced 45 per cent of its energy output in 2006. The higher output of these units relative to their share of capacity underscores their important contribution to Ontario's electricity supply.

* One terawatt hour (TWh) is equal to one billion kilowatt hours. A kilowatt hour is a measure of electricity demand per hour by customers. The average Ontario household uses approximately 1,000 kilowatt hours a month.

We Are Investing to Improve Performance

OPG's asset improvement programs aimed at increasing electricity production.

Improving our nuclear fleet

OPG undertook six planned outages in 2006 to improve plant condition and reactor performance. While several of these outages went beyond their scheduled completion dates, they accomplished much good work. OPG has made it a priority to improve outage completion times in 2007.

Pickering A: The station's Unit 4 planned outage went beyond schedule to repair degraded boiler nozzles discovered during inspection. Other key improvement initiatives included: feeder tube and boiler inspections and equipment maintenance to reduce the forced loss rate for the next cycle.

Pickering B: In late 2006, Pickering B completed the last phase of a major four-year inspection and maintenance program on 1,554 fuel channels. The procedure prevents contact between pressure tubes and calandria tubes within fuel channels. This is an important step toward shorter outages, longer operating runs, and higher electricity output.

Darlington: Darlington conducted two major planned outages in 2006. The first outage, although extended, enabled the station's Unit 3 to be the first Darlington unit to enter a 36-month outage cycle, improving on the station's current 24-month cycle. Eventually scheduled for all Darlington units, the new outage cycle will help increase operating time.

Darlington Unit 1 underwent a fall outage, which was completed on time and within budget. A key achievement included the completion of Darlington's first ever multiple feeder pipe replacement program – an important step in enhancing Darlington's reliability and performance.

Improving our hydroelectric fleet

OPG invests an average of \$160 million a year to maintain and enhance performance at its hydroelectric stations. Improvements in 2006 included: runner upgrades at Abitibi Canyon and Ranney Falls; rehabilitation of the Caribou Falls station; and upgrades to the switchgear at the Whitedog generating station in Northwest Ontario.

Since 1992, improvements like these have added 425 MW* of additional capacity to OPG's hydroelectric supply – including 25 MW added during 2006. Future upgrades will add another 116 MW to OPG's hydroelectric capacity by 2015, helping to ensure continued reliable service from these vital heritage assets.

Improving our fossil-fuelled assets

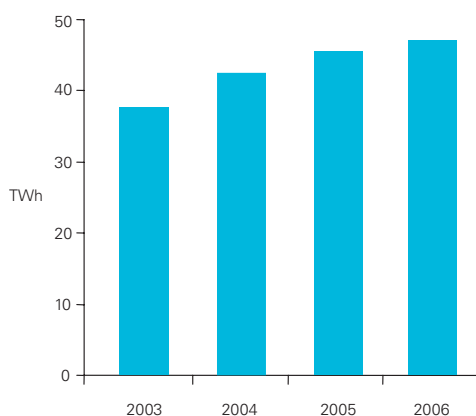
Improvements to enhance reliability at OPG's fossil fleet in 2006 included:

- Installing a new high pressure turbine at the Nanticoke generating station in Unit 5;
- Initiating work leading to a major generator overhaul of Lambton's Unit 3; and
- Replacing the original control system at the Thunder Bay station.

The Darlington Unit 1 outage, completed on time and on budget in December, was OPG's best planned nuclear outage in recent years. It achievements included:

- 11,000 tasks completed
- 8,000 boiler tubes inspected
- 11 kilometres of cable installed
- Three turbine blades changed
- Three feeder tubes replaced
- Zero lost time accidents

Nuclear production has risen



OPG has increased its nuclear production every year since 2003.



During the Pickering B Unit 7 outage, advanced ultrasonic technology was used to evaluate the condition of components of low pressure turbines.



One of OPG Hydro's largest asset improvement projects, the Caribou Falls rehabilitation project involved staff from across OPG's Northwest Plant Group. OPG's hydroelectric assets have provided Ontario with clean, renewable electricity for many decades. Enhancements like these will help ensure they continue to produce for many years more.

* A megawatt (MW) is 1 million watts. It is a measure of electricity generation capacity.

Progress Continues on New Supply Projects

OPG adopts new approaches to project management to better meet Ontario's needs.

Managing construction risk

Unlike its predecessor, Ontario Hydro, OPG does not build generating stations using its own work force. OPG acts as project manager, contracting with third party firms who largely assume a project's responsibilities and risks relating to costs, schedule adherence and other key areas. OPG has adopted this approach with respect to two new design/build initiatives it is managing.



Big Becky, the world's largest hard rock tunnel boring machine, disappears from view as it proceeds to dig the Niagara Tunnel.

Niagara Tunnel: The contractor for the Niagara Tunnel is Strabag Inc. – an Austrian-based firm with a strong international reputation. Work on the tunnel is now well underway, following the September launch of “Big Becky,” the world's largest hard rock tunnel boring machine (TBM). After some initial growing pains, resulting in slower than expected excavation progress, the TBM is now completely underground. When complete, the Niagara Tunnel will enable OPG's Beck hydroelectric stations to generate an additional 1.6 billion kilowatt hours of renewable hydroelectricity per year.

Lac Seul: The 12.5 MW Lac Seul hydroelectric generating station in Northwestern Ontario is being constructed by SNC Lavalin Inc. The project is on schedule to be in-service by the end of 2007.

Construction milestones at year end 2006 included: completion of the powerhouse substructure, erection of the powerhouse frame and substantial completion of the water conveyance tunnel. Work has proceeded safely, with no lost time injuries or “near miss” safety incidents for 2006.

New relationships with First Nations

Building commercial relationships with First Nations in potential hydroelectric projects is an important part of OPG's hydroelectric development strategy. In 2006, OPG settled past grievances with the Long Lake #58 and Lac Seul First Nations. Memoranda of Understanding and project participation agreements were signed with the Mattagami First Nation and the Taykwa Tagamou First Nation. A Protocol Agreement was reached with the Moose Cree First Nation.

OPG is also moving forward on a number of other potential hydro projects in northern Ontario. These include:

- The Lower Mattagami project – a potential 450 MW upgrade of four OPG hydro stations in Northeast Ontario now well into the “definition” stage of development; and
- Four other potential hydroelectric projects (Upper Mattagami; Hound Chute; Mattagami Lake Dam; and Healey Falls) also in the definition stage, representing about 55 MW.



The 12.5 MW Lac Seul generating station will be the first OPG hydro station to be built in Ontario in 13 years.

Partnerships with other companies

OPG has also joined forces with established energy providers to develop and explore new supply initiatives. These partnerships combine OPG's strengths with the strengths and expertise of other companies to undertake emerging energy opportunities.

Portlands Energy Centre: In October, OPG and TransCanada Energy conducted the official groundbreaking of the Portlands Energy Centre in downtown Toronto. This is also a design/build project. Construction of the 550 MW combined cycle gas generating station has been underway since the summer. The site is now cleared and foundation work has started. The project is targeted to produce its first power using simple cycle generation by summer 2008. It will employ combined cycle generation, using waste heat to generate electricity, in the following summer. In September, Portlands signed a 20 year Accelerated Clean Energy Supply contract with the Ontario Power Authority.

Lakeview site: OPG is also working with Enersource Hydro Mississauga Services Inc. to explore the possibility of developing a gas-fired generating station. It would be located at the site of the former Lakeview coal-fired generating station, which was closed in 2005.



The Portlands Energy Centre will play a major role in supplying Toronto's energy needs.

Moving Forward On Nuclear Generation

Potential refurbishment and new nuclear units being planned.

Pickering B refurbishment

It has been a busy period since the Ontario Government's directive to OPG to begin feasibility studies on the potential refurbishing of Pickering B. In August 2006, a federal Environmental Assessment commenced on the Pickering B Refurbishment and Continued Operations Project.

OPG launched a public consultation program to give the public and stakeholders the opportunity to learn about and provide input into the EA studies. These included not only local residents, but also regional and national groups across Ontario and Canada. By the end of the year, a wide array of consultation activities had been launched that included: stakeholder briefings and project updates; public open houses; newsletters and presentations; a toll-free number (1-866-487-4600) and a dedicated website at: www.opg.com/pickeringb

In addition to environmental factors, the business case assessment for Pickering B's potential refurbishment will consider the safety, financial, technological and logistical implications of refurbishment. The business case will be presented to OPG's Board in early 2008, at which time a decision will be made on whether or not to proceed with the undertaking. Refurbishment will not take place without a solid business case to justify it.



As many as 100 people attended each of the two rounds of open houses on Pickering B's potential refurbishment that were held in 2006. The open houses provided the public with information and the opportunity to provide input into the EA process.

Nuclear new build progress

OPG was also directed by the Ontario Government in June 2006 to begin the federal approvals process for the potential construction of new nuclear units at an existing facility. By year-end, five community information sessions had been held to introduce the community to the project and the federal approvals process, and to receive their input on how they would like to be involved. In addition, a toll-free information line (1-866-487-6006) and a Project website www.opg.com/newbuild have been established to enable the public and stakeholders to access information about the project and status of the approvals.

The public consultation process will continue through 2007 and beyond.



Pickering B employees performing outage work in 2006. OPG plans to make a recommendation on Pickering B's refurbishment to its Board early next year.

"...given the success of the Darlington site, it's easy to see that the best course of action is to add to an already excellent site...Let the approvals process begin."

Editorial, September 28,
Oshawa-Whitby-Clarington This Week



The Darlington nuclear site, potential home of new nuclear units to generate power for Ontario. OPG believes Darlington is an excellent site for new nuclear. Its advantages include: enough room to build; proximity to a major transmission corridor and load centre; support from local and regional government; and a highly skilled and experienced workforce.

A Year of Sustained Financial Performance

OPG's earnings increased in 2006, but 2007 may be a more challenging year.

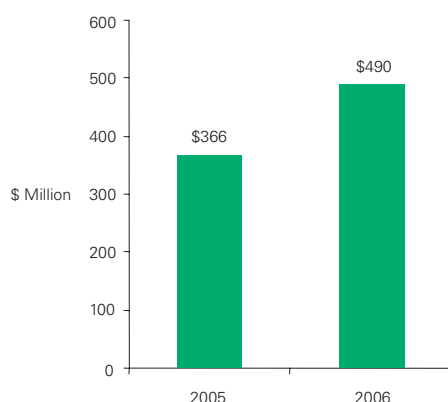
Net income rose

OPG's 2006 net income of \$490 million increased from 2005 earnings of \$366 million. This increase was due in part to two extraordinary factors:

- OPG's 2005 net income was unfavourably affected by a write-off of \$265 million recorded in 2005 for OPG's Lennox station and Units 2 and 3 at the Pickering A station.
- OPG's 2006 net income was impacted favourably by a decrease in depreciation expense as a result of extending the lives, for accounting purposes, of OPG's coal-fired stations and its Pickering A and B nuclear stations.

OPG's 2006 earnings were unfavourably affected by a number of factors. These included lower revenues resulting from lower electricity generation caused by lower Ontario electricity demand; as well as lower average electricity sales prices compared to 2005.

OPG Net Income



Challenges ahead

OPG faces challenges which could affect its financial performance. These include:

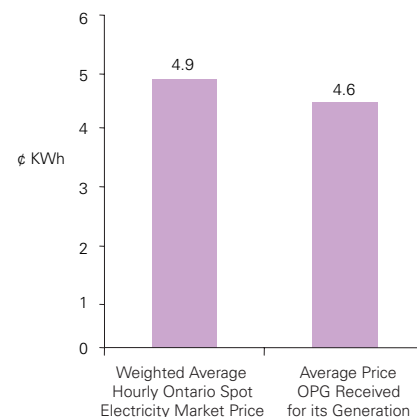
- Slow growth in Ontario electricity demand;
- Continuing low electricity prices;
- Increased expenditures to continue to improve the performance and reliability of existing assets; and
- Increasing demands on OPG to undertake new capital-intensive generation projects.

2007 Financial Priorities

In the face of these challenges, OPG will continue its focus on operating in a commercially responsible manner. Our 2007 financial priorities are to:

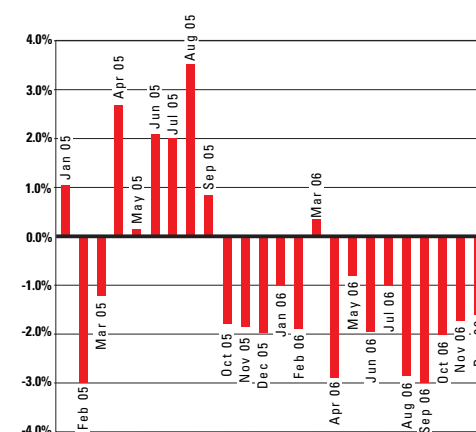
- Achieve a sustainable level of financial performance;
- Generate sufficient funds from operations to meet operational requirements, improve generating performance, and increase generating capacity; and
- Ensure access to cost-effective sources of capital.

Ontario Electricity Price 2006



OPG continued to have a moderating effect on the price of electricity in 2006.

Declining Year-Over-Year Electricity Demand



Since February 2005, the trend has been for declining year-over-year electricity demand, on a weather corrected basis.



OPG's Smoky Falls hydroelectric station in Northeastern Ontario is one of four stations on the Lower Mattagami River system that OPG is considering for major refurbishment, as directed by the Ontario Government. As OPG undertakes additional supply initiatives, its financing pressures will mount.

Committed to Safety and the Environment

Our focus is on continuous improvement.

Public safety and security

OPG opened new state-of-the-art security buildings at the Pickering and Darlington nuclear sites. The buildings are equipped with detecting devices for potential explosives, X-ray machines and metal detectors, and geometric hand monitors to authorize access into protected areas. OPG also operates an extensive Dam and Waterways Public Safety program. As part of its commitment to dam and water safety, the company contributed towards the development of provincial dam safety regulations. OPG also installed video surveillance cameras and improved safety booms at several of its hydro stations.

Workplace safety successes

OPG's nearly 1,000 Hydro employees achieved 1.3 years without a lost time accident. Successes like these were celebrated across OPG with Lennox and Thunder Bay employees achieving four years and nine years respectively without a lost time accident, and Pickering A achieving one million hours without a lost time accident.

In November, OPG received the President's Bronze Safety Award from the Canadian Electricity Association (CEA) for top quartile 2005 safety performance.

Areas of improvement identified

OPG's 2006 workplace safety performance was mixed. While many sites had excellent safety results, the company's overall performance did not improve over 2005 levels. This was due to increased on-the-job injuries and a higher number of "near miss" incidents in which serious injury could have occurred but was avoided. OPG's 2006 All Injury Rate was 1.30 injuries per 200,000 hours worked which was slightly better than 2005 performance and within the CEA top quartile. On the other hand, OPG's Accident Severity Rate was 5.87 days lost

per 200,000 hours worked which was worse than last year's performance and not within the CEA top quartile.

OPG is committed to continuous improvement in safety performance, and strives for zero workplace injuries. Targeted improvement strategies have been developed to prevent injuries and "near misses" involving key safety risk areas such as electrical and falling hazards, and musculoskeletal disorders.

Leadership in biodiversity

As part of its biodiversity commitment, OPG continued to implement its tree planting program. Through community partners, more than 300,000 native trees were planted in Ontario in 2006 – totalling 2.5 million since 2000.

Lower fossil emissions

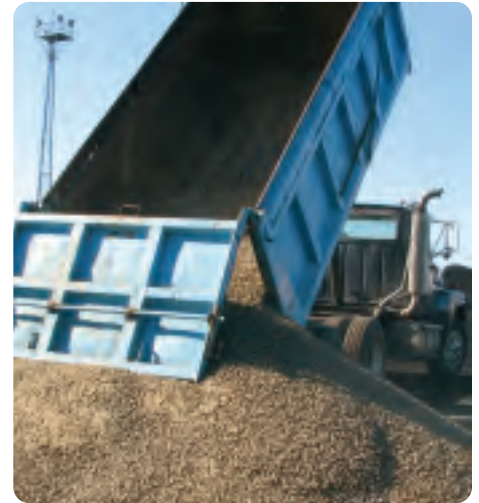
Helped by a reduced requirement for fossil-fuelled generation, and building on past investments and fuel and process changes, OPG fossil-fuelled plants achieved significant reductions in emissions during 2006, including:

- Lowest recorded emission rates for sulphur dioxide and oxides of nitrogen (acid gases);
- Lowest recorded total acid gas emissions with the current fossil fleet; and
- A 35 per cent decline in carbon dioxide emissions since 2000.

Biomass testing

Alternative fuels such as biomass could play an important role in future electricity production. OPG is aware of this potential and is investigating biomass as a fuel at its coal-fired stations. To date, successful test-burns involving a mix of coal and carbon-neutral grain screenings were performed at the Thunder Bay and Nanticoke stations. OPG's Northwest Fossil group is also

participating with Ontario's Ministry of Energy and other partners, in the development of the Atikokan Bio-Energy Research Center.



Pelletized grain screenings being delivered at the Thunder Bay generating station. The screenings were mixed with coal for the station's successful biomass test burn in August, 2006.

Enhanced nuclear waste management

In 2006 OPG strengthened its nuclear waste capability by expanding its used fuel storage facilities and undertaking an environmental approval process for its proposed Deep Geologic Repository near Kincardine, Ontario.

Energy efficiency success

In 2006, OPG achieved internal energy efficiency savings of 51,600 MWh, exceeding its target of 26,500 MWh and avoiding the release of 50,568 tonnes of carbon dioxide.

"While some organizations talk about the need for greater energy efficiency in their own facilities – but fail to act – OPG has taken efficiency to the very foundation of their operations."

Ken Elsey, President & CEO
Canadian Energy Efficiency Alliance

Employees and Community Citizenship

Our strength and reputation depends on people and partnerships.

Employer of choice

In October, OPG was named as one of Toronto's Top 50 Employers for 2006. The award recognizes OPG's leadership in attracting quality employees and providing them with excellent career opportunities.

Qualified employees

In 2006, OPG had over 11,400 employees working in more than 31 job categories – including engineers, technicians, operators, managers, maintainers and administrators. Each of these roles has its own skill sets, responsibilities and training requirements. OPG employees typically receive 13 days a year worth of training and development. Some positions require more intensive training and investment. OPG nuclear operators, for example, are given eight years of training representing an investment of \$1 million.

Typical of hundreds of OPG employees, Bonnie Olmstead is a Nanticoke security guard who for more than a quarter of a century has been active as a volunteer leader in Scouts Canada. She has helped hundreds of young people in rural Ontario become more confident and self-reliant by strengthening their wilderness and camping skills.

Caring about communities

OPG and its employees are engaged members of their communities. In 2006, OPG employees and pensioners donated \$1.79 million through OPG's annual Charity Campaign to assist those in need and the organizations that help them.

Our employees also contribute as members of local organizations, participants in

community events, and volunteers for numerous worthy causes.

OPG supports communities through its Corporate Citizenship Program. In 2006, OPG invested more than \$1.8 million to assist over 850 educational, environmental and community initiatives where we operate.



Open and accountable

Transparency, openness and accountability are fundamental to OPG's reputation and success. In 2006, OPG strengthened its commitment to these values by updating and enhancing its policies on disclosure, business conduct, and business and travel expenses.

OPG also posts directives from its Shareholder, the Government of Ontario, instructing the company to undertake certain actions. Three directives were received by OPG in 2006. These and many other documents relating to OPG's safety, environ-

mental, ethical and governance performance can be accessed on the company's website – www.opg.com.

In communities where it has facilities, OPG regularly reports on its operations and activities. In 2006, for example, plant officials from the Pickering nuclear station appeared 10 times before the local Community Advisory Council to report on plant operations. OPG holds or participates in regular meetings with community stakeholders in many of its station communities. In addition, to inform people about the potential refurbishment of Pickering B and potential

new nuclear units at Darlington, OPG held dozens of presentations and open houses for local and regional residents. These are a few examples of OPG's many outreach initiatives.

Want to know more about OPG? We can be reached at: www.opg.com/contact.asp

Interested in a career at OPG? Go to: www.mypowercareer.com

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