

Investing in Ontario's Energy Future



Hydro One Inc.

Is a holding company with subsidiaries that operate in the business areas of electricity transmission and distribution and telecom services.

Hydro One Networks Inc.

Represents the majority of our business, which is regulated by the Ontario Energy Board. It is involved in the planning, construction, operation and maintenance of our transmission and distribution networks.

Hydro One Brampton Networks Inc.

Distributes electricity to one of the fastest-growing urban centres in Canada, just 30 kilometres outside of Toronto.

Hydro One Remote Communities Inc.

Operates and maintains the generation and distribution assets used to supply electricity to 21 remote communities across northern Ontario that are not connected to the province's electricity transmission grid.

Hydro One Telecom Inc.

Markets our fibre-optic capacity to business customers. This business represents less than 1% of our total assets.

For more than 100 years, Hydro One has connected customers to **safe, reliable and cost-effective electricity**. Today, we are working to meet Ontario's energy needs for the 21st century.

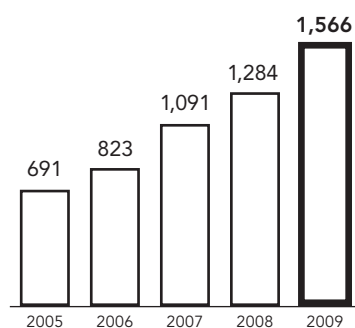
Consolidated Financial Highlights and Statistics

<i>Year ended December 31 (Canadian dollars in millions)</i>	2009	2008	\$ Change	% Change
Revenues	4,744	4,597	147	3
Purchased power	2,326	2,181	145	7
Operating costs	1,594	1,513	81	5
Net income	470	498	(28)	(6)
Net cash from operations	892	1,052	(160)	(15)
Average annual Ontario 60-minute peak demand (MW) ¹	20,798	21,820	(1,022)	(5)
Distribution – units distributed to customers (TWh) ¹	28.9	29.9	(1.0)	(3)

¹ System-related statistics include preliminary figures for December.

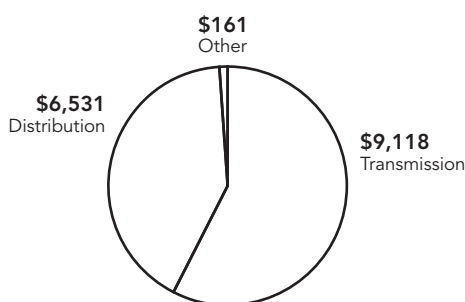
Capital Expenditures

(Canadian dollars in millions)



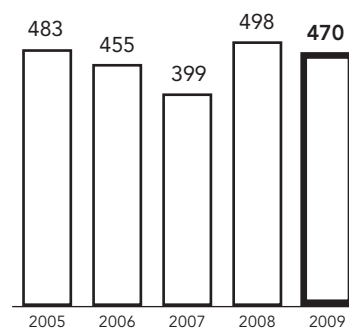
Total Assets

December 31, 2009 (Canadian dollars in millions)



Net Income

(Canadian dollars in millions)



Letter from the Chair



Fundamental to the Board's role is fostering a commercial culture that increases enterprise value while providing safe, reliable and cost-effective transmission and distribution of electricity.

James Arnett
Chair of the Board of Directors

As the Ontario Energy Board recently noted, Hydro One faces an operating environment that is turbulent and to some extent unknown. In this environment, the Company performed well in 2009.

I will leave it to the President and Chief Executive Officer to report on our results and financial metrics for the year.

Fundamental to the Board of Directors' oversight role is ensuring that Hydro One acts as a commercial enterprise and, to that end, fostering a commercial culture that increases enterprise value for the shareholder while providing safe, reliable and cost-effective transmission and distribution of electricity to Ontario's electricity users.

In 2008, the Board adopted a new strategic plan which emphasized this, and in 2009, the Board reviewed it and found it still appropriate.

Key to all of this is ensuring alignment of the organization with the Company's strategic objectives. To accomplish this, the Board has approved a corporate scorecard and short-term management incentives based upon performance measures derived from the corporate scorecard. The Human Resources and Public Policy Committee of the Board spent a

lot of time and effort during the past year analyzing and refining the corporate scorecard and these measures.

The resulting management compensation is described in detail in our Annual Information Form for 2009. The Board determined that of 13 corporate targets, 8 were met or exceeded and 5 were not and accordingly decided, in its discretion, on a 13% reduction from the overall maximum potential payout. On the other hand, the payouts were still significant, reflecting a good overall performance.

Another area where the Board spent more time and effort than usual was in its oversight of the pension plan, primarily by the Audit and Finance Committee. All aspects of the governance and management of the pension plan were reviewed in detail. Meanwhile, the sharp rebound in the financial markets from 2008 resulted in a significant improvement in the plan's position at year end.

In September 2009, the Board considered in detail, and then agreed to, a request from the Government of Ontario to proceed with the planning for a series of major transmission projects in support of the Green Energy Act (GEA). Management is working on the development of those projects. In December, the Company received

2010

CLEAN ENERGY CORRIDOR

Construction of the Bruce to Milton Transmission Reinforcement Project will begin in 2010.

2X

INFRASTRUCTURE

Over the past five years, Hydro One's work program has nearly doubled, principally to refurbish aging infrastructure.

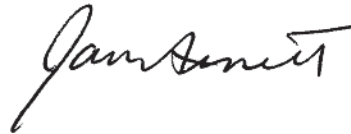
Environmental Assessment approval for the Bruce to Milton Transmission Reinforcement Project, the largest transmission project by the Company in a generation. Construction of the transmission line will begin in 2010.

Meanwhile, the Company completed its largest-ever work program both in capital and OM&A. Indeed, over the past five years, the Company's work program has nearly doubled, principally to refurbish aging infrastructure, which is required quite apart from the GEA.

These major capital programs will require continued careful oversight of the Company's operating and financial situation. They will also require that we maintain the Company's strong credit ratings to facilitate the borrowing which will be increasingly required. The Audit and Finance Committee of the Board scrutinizes this from a financial perspective. In addition, the Business Transformation Committee will oversee all matters related to the planning, development and implementation of our GEA projects.

In conclusion, I believe that the Board of Directors performed well in its oversight role during 2009.

I want to thank management, all of our employees, and all my colleagues on the Board of Directors for their dedication and tireless efforts on behalf of both our customers and our shareholder.



James Arnett
Chair of the Board of Directors
Hydro One Inc.

Letter from the President and CEO



It's a pivotal time for Hydro One. Our customers rightfully expect a safe, reliable and cost-effective grid at a time when Ontario's energy sector is undergoing tremendous investment and change.

Laura Formosa
President and Chief Executive Officer

2009 was a year of moving forward for Hydro One. Our Company made progress on multiple projects, embraced new technologies and strengthened relationships as we focused on our core role as stewards of Ontario's electricity transmission grid and largest distribution system.

It's a pivotal time for Hydro One. Our customers rightfully expect a safe, reliable and cost-effective grid at a time when Ontario's energy sector is undergoing tremendous investment and change. Our strategy is guided by four key values: health and safety, stewardship, excellence and innovation. These values touch every initiative and inform every decision.

These values serve Ontario well as we continue with the largest program of infrastructure investment and renewal in more than two decades. The move to cleaner, decentralized power sources provides us with the opportunity to rethink our systems of transmission and distribution. Projects across the province are focused on improving the performance of existing assets, relieving internal congestion points and delivering new clean and renewable generation to Ontario homes and businesses. Hydro One is a key enabler of the Green Energy Act (GEA) and is developing an electricity grid that is modern, flexible and smart; one that will contribute to a better environment, and deliver clean, renewable power to and from growing communities.

Our smart meter program surpassed the key milestone of one million smart meters installed, with almost 750,000 meters communicating at a level capable of reliable meter reading. This is one of the largest smart meter deployments by a utility in North America. Our customers will begin to move to time-of-use pricing in 2010, with full transition expected in 2011.

Hydro One played a leadership role in the technical assessment and acquisition of the 1.8–1.83 GHz spectrum for Smart Grid applications. Our people were leaders in obtaining a dedicated communications spectrum for Smart Grid applications from Industry Canada – this was an enormous achievement which will pave the way to our smarter future.

In September, the Government of Ontario asked our Company to proceed with a series of transmission projects in support of the GEA. We began the planning work on several large projects in October and continued our planning of the Northwest Transmission Expansion Project.

In December, we received Environmental Assessment approval for the Bruce to Milton Transmission Reinforcement Project. The project involves constructing a new 180-kilometre double-circuit 500-kilovolt transmission line from the Bruce Power Facility to our Milton Switching Station and will enable the delivery of 1,700 MW of renewable generation identified in the area, as well as about 1,500 MW of power from refurbished units at the Bruce Power Facility. We expect to break ground on this project in the first half of 2010.

3,200
MW

RENEWABLE ENERGY

We received Environmental Assessment approval for the Bruce to Milton Transmission Reinforcement Project that will enable approximately 1,700 MW of renewable generation identified in the area, as well as about 1,500 MW of power from refurbished units at the Bruce Power Facility.

1
MILLION

SMART METERS

Our smart meter program surpassed the key milestone of one million smart meters installed.

#1

CORPORATE CITIZEN

In 2009, Hydro One was named Canada's top corporate citizen by *Corporate Knights* magazine.

In 2009, *Corporate Knights* magazine named Hydro One as Canada's top corporate citizen. We were proud to receive that acknowledgement, but we take nothing for granted. I believe a company is not just measured by what they do, but also by how they do it. That's why we continue to focus on building strong relationships with First Nations and Métis communities, as well as all the communities in which we work and live.

We minimize our impact on the environment by examining every piece of our operations for improvement. This year's focus on our fleet of vehicles, which travel more than 100 million kilometres per year, included large initiatives like the introduction of Ontario's first hybrid bucket truck, a rigorous anti-idling and driver behaviour policy and the adoption of a vehicle right-sizing program to match the right-sized vehicle to the right task. Over the last year, we removed 525 metric tonnes of greenhouse gases through these and other initiatives.

Our partnerships with Ontario's institutions of higher learning are beginning to yield dividends with more and more qualified applicants helping Hydro One meet the human resource challenge we face. More than 30% of staff are eligible to retire within the next five years. We continued to invest in children's active play facilities in

communities across Ontario through our PowerPlay program. While many corporate giving initiatives were scaled back this year, we continued to invest in the communities we serve.

From the engineers planning the future of Ontario's grid, to the line maintainers who climb poles in icy darkness, and everyone in between, I'd like to thank all Hydro One staff for giving their best every day. I'd like to thank the members of the management team for their tremendous contributions and the Board of Directors for their continued guidance. I believe by ensuring that everything we do reflects health and safety, stewardship, excellence and innovation, we will continue to deliver the electricity system that the great province of Ontario deserves.



Laura Formusa
President and Chief Executive Officer
Hydro One Inc.

Prudently managed and profitably operated, Hydro One has a strong track record for **delivering value** as well as for transmitting and distributing electricity.



Focused on Productivity

At Hydro One, we are always looking for ways to improve productivity. In 2009, we introduced two new rigorous performance metrics: Cost per Asset Value for transmission and Cost per Line Length for distribution. These two metrics allow us to do a better job of benchmarking our performance against industry peers and to better monitor our productivity on a year-over-year basis. In our first year using these metrics, we met our targets for both.

Other process changes in 2009 that also led to improved productivity, included:

- *Using the SAP schedule tool* to better monitor maintenance task cycles, which enabled us to reduce equipment time outages and to dispatch work crews more efficiently.
- *Launching a Customer Care initiative* that reduced the volume of billing exceptions requiring manual interventions. This initiative also focused on improving handling and tracking processes in order to reduce handling time, eliminate errors and cut costs.
- *Adopting a Strategic Sourcing Model* that enhanced our work program delivery by giving us better, more secure access to critical long-lead time materials.

Strong Financial Performance

Hydro One is focused on performance. As Ontario's largest electricity transmission and distribution company, our mission is to operate profitably, to create value for our shareholder and to be a safe, reliable and cost-effective transmitter and distributor.

In 2009, we met our financial targets with a net income of \$470 million and revenues of \$4,744 million. We paid \$188 million in dividends to our shareholder, the province of Ontario, and \$77 million in payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation.

In a challenging financial market, Hydro One kept its "A" credit rating, ensuring that we can continue to borrow money over the long term on a cost-effective basis. We also raised \$1.15 billion in long-term financing, enabling us to meet the cash requirements for debt retirements and capital programs in an economical and timely manner.

Our success shows that Hydro One remains an attractive investment. It also highlights the benefits delivered by the Company's efforts to establish strong relationships with credit rating agencies, banks and potential investors.

**\$470
MILLION**

NET INCOME FOR
FISCAL YEAR 2009

**\$1.15
BILLION**

RAISED IN LONG-TERM
FINANCING

**\$188
MILLION**

PAID IN DIVIDENDS TO THE
PROVINCE OF ONTARIO

#1

ON *CORPORATE KNIGHTS'*
BEST 50 CORPORATE
CITIZENS LIST

Noteworthy Achievements

Hydro One is helping to build a conservation culture within Ontario. We are also working to establish a corporate culture that values transparency and accountability, that celebrates diversity, and that supports employees at work and in the community.

In 2009, our efforts were rewarded with significant recognition.

In their annual listing of the country's best 50 corporate citizens, *Corporate Knights* magazine named Hydro One as Canada's Top Corporate Citizen. The magazine's rankings are based on a wide-ranging review of publicly reported environmental, social and governance indicators, including diversity, pension quality and health and board independence. In 2009, aboriginal relations were also weighed as an indicator.

"The ranked companies are doing the best job at fulfilling their end of the social contract and managing their specific environmental, social and governance performance when compared with their sector peers."

Corporate Knights magazine

Hydro One was also named one of the Top 90 Toronto Employers for 2010. After reviewing applications from more than 2,600 employers, Mediacorp Canada Inc. recognized Hydro One for supporting employees through ongoing skills training, and for its efforts to support employee involvement in the communities where they work.

In 2009, Hydro One met the challenge of providing **reliable service** while replacing end-of-life equipment within our system. We also helped to implement the Green Energy Act and did our part to secure Ontario's energy future.

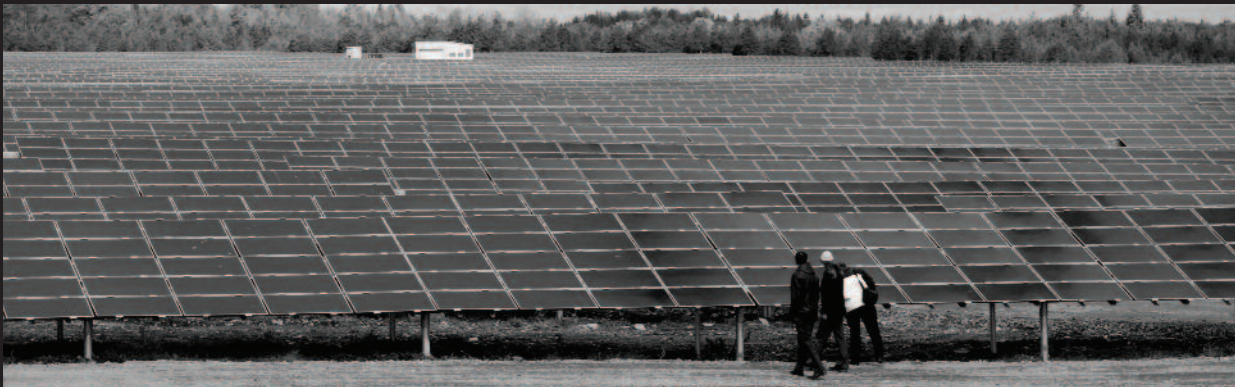


Photo courtesy of Skypower Limited.

Building Ontario's Green Future

Ontario's Green Energy Act lays out a framework to make the province a global leader in clean energy development through the use of renewable energy, distributed energy and conservation, and by creating thousands of jobs. Hydro One's role is to facilitate the connection of a wide variety of energy sources to the grid and ensure that our

transmission and distribution system can deliver renewable energy from where it is generated to where it is needed.

Hydro One is currently reviewing core transmission network upgrades across Ontario necessary to support clean energy.

1
MILLION

**SMART METERS INSTALLED
IN 2009**

Reaching a Smart Goal

In one of the largest smart meter deployments undertaken by any utility in North America, Hydro One surpassed the key milestone of one million smart meters installed, with almost 750,000 meters communicating at a level capable of reliable meter reading. With this critical infrastructure in place our customers can begin converting to time-of-use pricing in 2010/2011.



Ensuring Reliability. Increasing Capacity.

In 2009, Hydro One invested \$918 million in transmission capital projects which included a number of network upgrades designed to facilitate access to new sources of renewable generation and to increase our transfer capability from other jurisdictions.

One of these initiatives, the Bruce to Milton Transmission Reinforcement Project, will connect refurbished nuclear and new wind generation sources in the Huron-Grey-Bruce area. Hydro One received the Environmental Assessment approval in December 2009, and construction will begin in 2010.

To provide reliable service to our customers, we continually monitor and evaluate our infrastructure. In 2009, the Southwestern Ontario Capacitor Banks Project identified four capacitor banks that – based on age, condition and importance to the system – were approaching their end-of-life. We made replacing this critical equipment a priority, and installed new capacitors which will also expand transmission capacity in southwestern Ontario.

The connection between our Cherrywood Transformer Station and our Claireville Transformer Station was reinforced to improve reliability and to ensure that it could meet growing demand within the Greater Toronto Area (GTA).

16
10+ KW

**RENEWABLE GENERATORS
INTEGRATED INTO
ONTARIO'S POWER GRID**

Supporting Renewable Energy Generation

Hydro One is crucial to the successful implementation of the Green Energy Act. As more energy from renewable generation sources, such as solar, wind and biomass, becomes available, Hydro One will take the lead in integrating this energy into Ontario's electricity system, safely and cost-effectively. In 2009, 16 renewable generators, each capable of producing more than 10 KW of electricity, were connected to our distribution system.

\$918
MILLION

**INVESTED IN TRANSMISSION
CAPITAL IMPROVEMENTS**

Green energy. Educational partnerships. Community outreach. Just a few examples of our commitment to **good corporate citizenship** in action.

Committed to Conservation

Our commitment to continually improve our environmental performance includes helping Hydro One customers manage their electricity usage more efficiently. In 2005, we launched our Conservation and Demand Management program. Since then, more than 1.5 million customers have saved over 450 million kWh of electricity. That's enough to power approximately 38,000 homes for a year, resulting in greenhouse gas emissions savings of more than 300,000 tonnes of CO₂.

Hydro One employees are reducing their impact on the environment by cutting back on paper use, shutting down engines and turning off computers and unnecessary lights. Initiatives launched through our employee-driven Greener Choices program have resulted in a reduction of an estimated 900 tonnes of CO₂ emissions.

Greener Fleet Rates Gold

Hydro One's efforts to improve both the fuel efficiency and environmental management of our fleet of service vehicles earned us the gold rating from Canada's Energy, Environment and Excellence group. The E3 Fleet program recognizes companies and governments that increase their fleet's fuel efficiency, reduce their carbon footprint and demonstrate leadership in fleet management excellence. Our gold rating was based on a reduction of 525 tonnes of CO₂ emissions achieved by minimizing idling, launching a smart tire inflation campaign, purchasing more fuel-efficient vehicles and optimizing fuel performance by collecting and analyzing vehicle-use data.





Improved Service and Convenience

In 2009, we relaunched our customer website, www.HydroOne.com. Now it is easier than ever for Hydro One customers to pay their bills online, manage their accounts and find tips on saving electricity. The site's new power outage tracking system uses state-of-the-art mapping technology to provide customers and other system stakeholders with comprehensive, real-time updates on the size and location of outages, the number of customers affected and the estimated time of service restoration.

161

NEW GRADUATES
HIRED BY HYDRO ONE
SINCE 2008

New Skills. New Opportunities.

To be sure we have the people we need to fulfill our mandate of delivering safe, reliable and affordable electricity, Hydro One has taken the lead in establishing partnerships with colleges, universities and First Nations and Métis people. Since 2008, we have hired 161 young professionals into our new graduate program and brought on 393 apprentices.

In February 2009, Colleges Ontario recognized Hydro One with an award for our efforts in advancing college education in the province. Hydro One has invested more than \$3 million to partner with Ontario colleges to train and recruit people as engineering technicians and technologists as well as other trades positions in the electricity sector.

Partners in Powerful Communities

Hydro One believes in helping to build strong, healthy communities. Our PowerPlay program provides grants of up to \$25,000 to support capital projects for community centres, indoor or outdoor ice rinks, playgrounds, splash pads and sports fields – places where members of the communities we serve can get together and children can engage in sports and active play. In 2009, Hydro One gave a total of \$1 million for PowerPlay grants to 108 community projects.

108

POWERPLAY GRANTS TO
108 COMMUNITY PROJECTS
IN 2009



VISIT www.HydroOne.com TO READ MORE ABOUT WHAT HYDRO ONE IS DOING FOR THE ENVIRONMENT AND OUR CUSTOMERS IN THE SOCIAL RESPONSIBILITY HIGHLIGHTS BROCHURE.

Hydro One Senior Management



Laura Formusa
President and Chief
Executive Officer,
Hydro One Inc.



Joe Agostino
General Counsel



Myles D'Arcey
Senior
Vice-President,
Customer
Operations



Steve Dorey
Vice-President,
External Relations



John Fraser
Vice-President,
Internal Audit and
Chief Risk Officer



Tom Goldie
Senior
Vice-President,
Corporate Services



Peter Gregg
Senior
Vice-President,
Corporate and
Regulatory Affairs



John Macnamara
Vice-President,
Health, Safety and
Environment



Carmine Marcello
Senior
Vice-President,
Asset Management



Nairn McQueen
Senior
Vice-President,
Engineering
and Construction
Services



Geoff Ogram
Senior
Vice-President
and Special Advisor



Wayne Smith
Senior
Vice-President,
Grid Operations



Sandy Struthers
Senior
Vice-President
and Chief Financial
Officer



Ali Suleman
Vice-President
and Treasurer

CORPORATE INFORMATION

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Customer Inquiries

Power outage and
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Residential, farm and
small business accounts:
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Business accounts:
1-877-447-4412

Auditors

KPMG LLP

To learn more about what Hydro One is doing to deliver electricity, build for the future and keep the environment healthy, visit www.HydroOne.com.

