

Hydro One announces second quarter net income

Toronto, August 10, 2007 - Hydro One Inc. today released its second quarter results with net income of \$242 million and revenues of \$2,398 million for the six months ended June 30, 2007.

"Our strong financial and operational performance in the second quarter continues to highlight Hydro One's commitment to the safe and reliable delivery of electricity to our customers and the stable financial performance expected by our debt holders," said Laura Formusa, Acting Hydro One President and CEO. "In addition to strong financial performance, the company has been recognized for its corporate, social and environmental performance by Corporate Knights magazine as one of Canada's top corporate citizens."

The following are some of the key achievements in the second quarter:

- Hydro One has been recognized as one of Canada's top 50 corporate citizens by Corporate Knights magazine based on corporate social and environmental performance. Our work leading the smart meter program in Ontario and our success in drawing 880,000 customers to our conservation and demand management programs contributed to our ranking of third among utilities.
- In support of the Province's goal of creating a conservation culture in Ontario, and to have a smart meter in every Ontario home and small business, the company surpassed its first milestone of 100,000 meters deployed. We are on track to meet the 240,000 interim target for 2007 and are confident we will reach the end goal of 1.3 million meters installed by 2010.
- In April 2007, we commenced early bargaining for the next collective agreement with the Society of Energy Professionals (Society) and on May 31, 2007, we successfully reached a tentative agreement with a five-year term effective April 1, 2008. In June 2007, the collective agreement was ratified by our Board of Directors and the Society.
- The summer's first violent summer storm that cut a swath across the province on June 8, saw more than 130,000 Hydro One customers lose power. Restoration crews were able to restore power to 90% of affected customers within 24 hours of the commencement of the storm.
- Customer satisfaction continued to climb, with 94% of Hydro One's Large Transmission Customers saying they were satisfied with levels of service.

Net income of \$93 million was lower by \$6 million, or 6%, in the second quarter, and lower by \$9 million, or 4%, in the first six months compared to 2006 results. These reductions reflect increased expenditures within our distribution work program to maintain system reliability and the impact of a 2006 Ontario Energy Board (OEB) decision on our distribution-related pension expenditures. In addition, our effective tax rate was higher in the year-to-date period due to a recovery of payments in lieu of corporate income taxes in the first quarter of last year. These increases were partially offset by increased tariff revenues within our transmission and distribution businesses.

Capital expenditures of \$490 million for the first six months were higher than in 2006 by \$115 million, or 31%. Expenditures made to expand our transmission system increased primarily as a result of four major initiatives: load and generation connections projects at our Whitby and London transformer stations, the reconfiguration of our Lambton Transformer Station, construction on our new inter-connection with Quebec, and the continuation of our Downtown Toronto Cable Project. These projects will allow us to further increase the reliability and flexibility of our system. In addition, the inter-connection with Quebec will increase access to emission-free hydroelectric power. Within our Distribution business, significant capital investments were made to install smart meters, consistent with our planned installation of 240,000 meters in 2007.

Total revenues for the six-month period were \$160 million, or 7%, higher than last year. Within our transmission business, we experienced increased tariff revenues as a result of higher peak demands and an OEB decision removing the earnings sharing mechanism effective December 31, 2006. Within our distribution business, we experienced increased tariff revenues due to higher demand and the approval of new distribution rates. We also recovered increased purchased power costs. As a result of the OEB's decision on August 8, 2007 regarding the combined smart meter proceeding, we recognized an additional \$10 million in revenue and an equivalent amount of costs which we incurred in support of this program. Net cash from operating activities was \$537 million for the first six months of 2007. During this period, we paid \$180 million in dividends to the Province of Ontario.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>(Canadian dollars in millions) (except as otherwise noted)</i>	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Revenues	1,120	1,078	2,398	2,238
Purchased power	522	505	1,163	1,103
Operating costs	388	361	747	664
Net income	93	99	242	251
Net cash from operating activities	238	218	537	364
Average Ontario 60-minute peak demand (MW) ¹	22,414	22,596	22,947	22,489
Distribution – units distributed to customers (TWh) ¹	6.9	6.6	15.5	14.6

¹ System related statistics are preliminary

Hydro One Inc. is a holding company that operates through its subsidiaries in electricity transmission and distribution and telecom businesses. One of its subsidiaries, Hydro One Networks Inc., operates one of the largest transmission and distribution systems in North America. Hydro One Inc. is wholly owned by the Province of Ontario.

Hydro One's 2007 Second Quarter Consolidated Financial Statements and Management Discussion and Analysis can be accessed through the following link: www.hydroone.com/2007Q2financials.

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Peter Gregg
Vice President, Corporate Communications
(416) 345-6072

Ali R. Suleman
Vice President and Treasurer
(416) 345-6126

Hydro One Investor Relations
(416) 345-6867