

Hydro One Releases 2008 Year-End Financial Results

For Immediate Release – February 11, 2009

Toronto - Hydro One Inc. today released its 2008 year-end results with net income for the year of \$498 million and revenues of \$4,597 million.

“2008 represented a year of important progress on several key strategic initiatives aimed at renewing Ontario’s electricity system,” said Laura Formosa, President and CEO of Hydro One. “Through our capital expansion program, we have embarked on an aggressive infrastructure renewal program and continued to deliver on a number of complex, large-scale projects.”

The following are some of our key achievements for 2008:

- In September, the Ontario Energy Board (OEB) approved our application for leave to construct our Bruce to Milton Transmission Reinforcement Project (Bruce to Milton Project). In its decision, the OEB found the project to be in the public interest in regard to its impact on price, reliability and quality of electricity service to consumers. In addition to obtaining this important approval, we signed landmark protocol agreements with two First Nation and Métis communities that ensure their continued involvement in the project’s regulatory process.
- In December, the OEB issued its decision approving our subsidiary Hydro One Networks Inc.’s application for its 2008 distribution revenue requirement and customer rates. As part of the decision, the OEB approved substantially all of our work program requirements and approved recovery of our smart meter expenditures made prior to the end of 2007. Subsequent expenditures will continue to be tracked in deferral accounts for future recovery.
- We reached important targets in our effort to support the Province of Ontario’s goal to have a smart meter in every home and business by 2010. By the end of 2008, we had installed more than 780,000 smart meters in our service territories since the beginning of the program.
- Our overall residential and small business customer satisfaction scores increased from 82% satisfied in 2007 to 86% satisfied in 2008. These results recognize the positive impact of our reliability programs and our involvement in our communities.
- In December, back-to-back winter storms knocked out power to about 260,000 of our customers. We deployed 1,300 workers from our company and from 23 local utilities, representing as many workers as responded to the 1998 Ice Storm. We also assisted two U.S. utilities following significant weather events in the latter part of the year.
- We made advances in our aggressive Workforce Renewal Program, strengthening our long and productive association with the engineering faculties at the Universities of Western Ontario and Waterloo and providing new partnerships with Ryerson and McMaster universities.

- We were again recognized as one of Canada's Top 50 Corporate Citizens by *Corporate Knights Magazine*. We placed 6th in the annual ranking, moving 20 spots up from our 2007 ranking, and placed first in the utility category. We were also named one of Canada's Top 10 Most Diverse Companies in Corporate Knights' annual Leadership Diversity Index. This is the second consecutive year the Company was named to the top ten list.
- During the year, we raised \$1,050 million through the issuance of medium term notes and increased our committed revolving credit facility with a syndicate of banks to \$1,000 million from \$750 million. We issued \$500 million in medium term notes in the final quarter of last year and \$300 million in the first month of this year at cost-effective rates, despite the ongoing turmoil in the financial markets.

Net income of \$498 million was higher by \$99 million, or 25%, compared to 2007 results. This increase was primarily due to a reduction in our payments in lieu of corporate income taxes resulting from a lower effective tax rate and other net temporary differences. Also favourably impacting our net income were lower operation, maintenance and administration expenses, including the pension asset transfer settlement with our service provider Inergi LP following approval from the Financial Services Commission of Ontario in the first quarter. These impacts were partially offset by reduced transmission revenues resulting from lower average monthly peak demands and higher depreciation expense.

Capital expenditures of \$1,284 million were higher by \$193 million, or 18%, compared to the prior year. Expenditures to expand our transmission system increased primarily as a result of a number of significant inter-area network upgrade projects facilitating new generation or increased transfer capability from other jurisdictions. These projects include our Bruce to Milton Project; our Southwestern Ontario Capacitor Banks Project; and work on our Cherrywood to Claireville Transformer Station connection. Our Bruce to Milton Project, to connect wind generation and redeveloped nuclear sources in the Huron-Grey-Bruce area, demonstrates our commitment to connect clean and renewable generation. Expenditures to sustain our transmission system increased primarily as a result of spare transformer purchases and refurbishment and replacement of end-of-life equipment at our Claireville Transformer Station. Within our Distribution Business, significant capital investments were made to install smart meters in 2008. Further increases were attributable to higher information technology expenditures related to an entity-wide information system improvement project to replace end-of-life systems and enhance productivity.

Total revenues for 2008 were \$4,597 million, which were \$58 million, or 1%, lower than last year. This reduction reflects lower transmission revenues resulting from lower average monthly peak demands, partially offset by higher revenues associated with export and wheeling fees to transfer power to other jurisdictions. Distribution revenues were lower due to a reduction in our purchased power costs as a result of lower demand and the completion of recovery of a distribution-related deferral account effective March 31, 2008. These reductions were partially offset by revenue recorded as a result of the OEB distribution rate decision on December 18, 2008. Net cash from operating activities was \$1,055 million in 2008. During the year, we paid \$259 million in dividends to our shareholder, the Province of Ontario and \$145 million in payments in lieu of corporate income taxes to the Ontario Electricity Financial Corporation.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>Year ended December 31</i> <i>(Canadian dollars in millions)</i>	2008	2007	Change	% Change
Revenues	4,597	4,655	(58)	(1)
Purchased power	2,181	2,240	(59)	(3)
Operating costs	1,513	1,516	(3)	-
Net income	498	399	99	25
Net cash from operations	1,055	1,141	(86)	(8)

STATISTICS

Average annual Ontario 60-minute peak demand (MW) ¹	21,820	22,988	(1,168)	(5)
Distribution – units distributed to our customers (TWh) ¹	29.9	30.2	(0.3)	(1)

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 2008 Annual Consolidated Financial Statements and Management's Discussion and Analysis can be accessed through the following link:

www.hydroone.com/financials

- 30 -

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